

BRIEFING
PAPER

403

February 2025



Germany's 'perfect storm'

A structural crisis for the EU's engine?

Marco Siddi, Tuomas Iso-Markku,
Manuel Müller & Niklas Helwig

FIIA

FINNISH
INSTITUTE OF
INTERNATIONAL
AFFAIRS

BRIEFING PAPER 403 / February 2025

Germany's 'perfect storm'

A structural crisis for the EU's engine?

Summary

- Germany is facing significant challenges in its foreign and economic policies, most notably the loss of Russian energy supplies, managing the economic partnership with China amid growing geopolitical tensions and, more recently, the prospect of an unfriendly US administration under Donald Trump.
- Domestically, Berlin is grappling with the consequences of long-term underinvestment in public infrastructure, limited innovation capacity, and sluggish productivity growth. Anti-establishment parties, particularly the far right, have gained popularity, limiting options for coalition governments after the February 2025 election.
- At the EU level, Germany's leadership and its partnership with France have suffered setbacks. At the same time, no credible alternatives have emerged that could potentially replace the leading role of the Franco-German tandem.
- The next German government will have to contend with a deteriorating economic situation, as well as the long-term foreign policy challenges faced by the outgoing government.

Authors



Marco Siddi

Leading Researcher
The European Union and Strategic
Competition
FIIA



Tuomas Iso-Markku

Senior Research Fellow
The European Union and Strategic
Competition
FIIA



Manuel Müller

Senior Research Fellow
The European Union and Strategic
Competition
FIIA



Niklas Helwig

Leading Researcher
The European Union and Strategic
Competition
FIIA

Introduction

Germany is approaching its federal election in February amid a structural crisis driven by both domestic and external factors. Growing international tensions and conflicts have undermined the country's economic model, which is based on global interdependence and open trade.

Confrontation with Moscow following its full-scale attack on Ukraine in 2022 has led to the suspension of the decades-long German-Russian energy partnership. Meanwhile, the West's increasingly assertive approach towards Beijing and growing geopolitical competition have raised serious doubts about the future of German-Chinese economic cooperation. Trump's re-election has added a further challenge, given his unfriendly stance towards European allies and Germany in particular, which he perceives primarily as an economic competitor that free-rides on US security guarantees.

Domestically, two decades of underinvestment in public infrastructure, such as the railway network and educational institutions, as well as slow progress in digitalisation, are weighing on the country's current situation. Limited innovation capacity and sluggish productivity growth also play a role. The private sector, notably Germany's famed automotive industry, is struggling to keep pace with Chinese competition in key sectors such as electric vehicles. Following five years of stagnation, the German economy is now 5% smaller than it would have been if the pre-Covid growth trend had been maintained.¹

Despite net immigration of almost 5.5 million people since the mid-2010s, Germany's demographic prospects remain bleak, with an ageing population expected to reduce the labour market by seven million people by 2035.² The demographic situation is particularly challenging in the five eastern states that joined the Federal Republic in 1990 upon reunification. These states face a broad set of challenges, including persistent economic weakness and the rise of the far-right, anti-immigrant, and anti-EU Alternative for Germany (AfD) party.

However, the AfD's political appeal is not limited to eastern Germany. The party's rise has contributed to the fragmentation and polarisation of the political scene also at the federal level. Meanwhile, the traditional powerhouses of German politics – the centre-right Christian Democratic Union of Germany/Christian Social Union in Bavaria (CDU/CSU) and especially the centre-left Social Democratic Party (SPD) – have lost a sizable share of the vote. This directly impacts post-election coalition building. Due to the AfD's continued radicalisation, all other German parties continue to exclude the option of building coalitions with it. Consequently, forming majority governments has become an increasingly difficult endeavour.

After examining the dynamics of the German political landscape in early 2025, this Briefing Paper focuses on the prospects and challenges for Germany's European and foreign policies. It argues that Germany faces a complex conundrum in which its leading role in the EU is being questioned, and long-term tenets of the country's foreign policy have become inadequate.

1 Randow, J. and Ademmer, M. (2024) "Germany Is Unraveling Just When Europe Needs It Most". Bloomberg, 16 November. <https://www.bloomberg.com/news/features/2024-12-15/germany-is-unraveling-and-the-decline-threatens-to-become-irreversible>; Horn, G. (2024) "Elections in Germany: Economic Policy at a Crossroads". *Intereconomics* 59, 6: 310-311.

2 Institut für Arbeitsmarkt- und Berufsforschung, 23 November 2021. <https://iab.de/presseinfo/nur-mit-einer-jaehrlichen-nettozuwanderung-von-400-000-personen-bleibt-das-arbeitskraefteangebot-langfristig-konstant/>.

The German political-economic landscape in early 2025

The federal election scheduled for 23 February 2025 was triggered by the collapse of Social Democratic Chancellor Olaf Scholz's "traffic-light coalition" of the SPD, the Greens and the Free Democratic Party (FDP). After Scholz dismissed Finance Minister Christian Lindner of the FDP in November 2024, he deliberately lost a vote of confidence in the German Bundestag to pave the way for a snap election.

While early elections have been the exception in the history of the German Federal Republic, the crumbling of Scholz's government did not come as a major surprise. The traffic-light coalition was the first of its kind at the federal level, bringing together three parties with disparate political profiles and aims. Moreover, with the fallout from the Covid-19 pandemic and Russia's full-scale invasion of Ukraine, the government faced major challenges from the outset. These included rethinking central tenets of German foreign and security policy, bolstering Germany's enfeebled armed forces, quickly replacing Russian oil and gas in the energy mix – while also shutting down its last three nuclear power plants in April 2023 – as well as responding to rising prices and the ensuing social discontent.

Over the course of the legislative period, the pressure on the traffic-light coalition continued to grow amid mounting concerns over the general state of the German economy, disagreements about the government's energy transition plans, and the reignition of the migration debates that have polarised German society since the mid-2010s. A string of poor results in regional elections and the 2024 European Parliament election added to the infighting between the government parties.

“Unsurprisingly, the main beneficiaries of the government's troubles have been the opposition parties.”

Finally, public finances proved to be a key conundrum for the Scholz government. Its coalition agreement reflected the willingness of the SPD and the Greens to invest in digital, green and social projects, but also the FDP's insistence on not raising taxes and adhering to the so-called debt brake

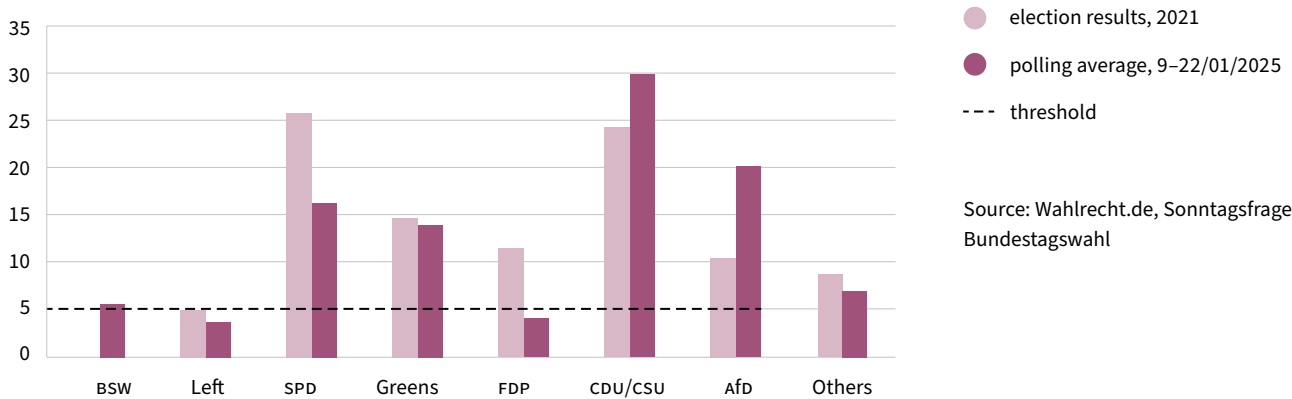
enshrined in the German constitution, which limits public borrowing at the federal level to 0.35% of GDP.³ Accommodating such contrasting ambitions was difficult from the start, and the funding needs caused by the war in Ukraine and its consequences complicated the situation further. To overcome internal differences, the government resorted to alternative funding schemes, which allowed it to work around the debt brake while nominally complying with its requirements. However, in November 2023, the Federal Constitutional Court deemed the government's central funding scheme unconstitutional, reinforcing the budgetary battles within the coalition.

In response, the SPD and the Greens favoured a temporary suspension or reform of the debt brake. In their view, this would have been justified by the continuing war in Ukraine, allowing the government additional leeway to invest in social cohesion, infrastructure, defence, and support for Ukraine. The FDP's Lindner, by contrast, advocated a fundamental reversal in the government's fiscal and economic policies, encompassing tax cuts, the relaxation of existing climate regulations and targets, and the scrapping of green subsidies. In the end, these disagreements proved unsolvable and led to the collapse of the coalition.

Unsurprisingly, the main beneficiaries of the government's troubles have been the opposition parties. The CDU/CSU, the largest opposition force, leads the polls by a wide margin. The far-right AfD has strengthened its position as well, polling in second place at around 20%. A new anti-establishment party, the left-conservative Sahra Wagenknecht Alliance (BSW), is also trying to enter the Bundestag after already gaining success at the regional level in eastern Germany. The establishment of the BSW has dented the prospects of the Left, BSW leader Wagenknecht's former party, which has lost voters – particularly to the BSW – and now faces an uphill battle to enter the next parliament. As for the parties in the traffic-light coalition, the SPD and the Greens are polling around the 15% mark, while the FDP's prospects are even more dire, with the party polling below the 5% electoral threshold.

3 Siddi, M., Helwig, N. and Iso-Markku, T. (2022) "European politics in times of crisis: Developments in Germany, France and Italy, and consequences for the EU". *FIIA Briefing Paper* 338.

Where the German parties stand



“The future of the German economy has become a major concern for voters, alongside asylum and refugee policy.”

Even if the CDU/CSU wins the election by a clear margin, as current polls suggest, political fragmentation and the expected strength of the AfD limit coalition options. A surprising and highly controversial move in January 2025 saw the CDU/CSU push through migration-related proposals in the Bundestag with the support of the AfD and the FDP.⁴ However, it remains unlikely that the CDU/CSU would consider more formal cooperation with the AfD, at least at the federal level. This means that the most likely government option is a “grand coalition” led by the CDU/CSU, with the SPD acting as junior partner. Nonetheless, it could prove tricky for the CDU/CSU and the SPD to agree on financial matters, social policy and migration, especially after the polarising election campaign. A coalition between the CDU/CSU and the Greens is another possibility but seems less likely due to even greater ideological and political differences.

By and large, the next government will face similar domestic challenges to those of the Scholz government. Most importantly, the future of the

German economy has become a major concern for voters, alongside asylum and refugee policy.⁵ The potential governing parties propose different approaches to restoring economic growth, but there seems to be increasing openness to reforming the debt brake, which is widely seen as restricting the government’s room for manoeuvre. While the CDU/CSU has adamantly defended the debt brake in the past, its chancellor candidate, Friedrich Merz, has recently been more willing to discuss the issue.⁶

One area where the mainstream parties could potentially find common ground is securing funding to maintain or increase Germany’s defence spending. In 2024, Germany reached NATO’s 2% target, but only thanks to a €100 billion special fund created in 2022, which is set to run out in 2027. In view of constitutional matters, such as reforming the debt brake, the outcome of the February 2025 election and the resulting constellation in the Bundestag will be crucial, as any reform would require a two-thirds majority.

Germany’s role in the European Union

As the largest member state, Germany has traditionally played an important leadership role in the EU, seeking to bridge the interests of both larger and smaller member states while supporting strong supranational institutions and EU-level democracy.

4 Marsh, S., Knolle, K. and Sychev, A. (2025) “German parliament backs resolution on migration with far-right votes”. *Reuters*, 29 January. <https://www.reuters.com/world/europe/german-election-frontrunner-risks-breaking-taboo-working-with-far-right-2025-01-29/>.

5 Tagesschau (2025) Deutschlandtrend, 9 January. <https://www.tagesschau.de/inland/deutschlandtrend/deutschlandtrend-3454.html>.

6 Treeck, J. (2024) “Election throws Germany’s legendary ‘debt brake’ into question”. *Politico*, 21 November. <https://www.politico.eu/article/germany-may-get-a-break-from-the-debt-brake/>.

The outgoing government united three parties with a strong affinity for pro-EU rhetoric. This led to a very ambitious coalition agreement, which, among other things, envisioned a “constitutional convention” that would allow for the EU’s “further development into a federal European state”.⁷

In practice, the coalition’s European policy fell far short of such aspirations. Germany failed to provide strong leadership on any of the major EU dossiers – whether economic recovery, migration policy, support for Ukraine, or enlargement and reform.⁸ Infighting between the three coalition parties often prevented Germany from taking a position at all. The FDP, in particular, repeatedly broke ranks, for example when it blocked a fully negotiated regulation on emission standards for cars in early 2023, raising doubts about Germany’s reliability as a negotiating partner. The government’s tendency to abstain from decisions due to intra-coalition disagreements even led to the derogatory moniker “the German vote”.

At the same time, Germany’s long-standing partnership with France also suffered setbacks. Traditionally, this cooperation has served as a proverbial “integration engine” for the EU. Despite their contrasting views in many key debates on European integration – Germany being federalist, ordoliberal, Atlanticist and eastward-looking, while France tends to be more intergovernmentalist, interventionist, Gaullist and southward-looking – both countries have been determined to find common ground. This enabled so-called “compromise by proxy” solutions, in which they developed joint proposals that all other member states could agree upon.

In recent years, however, the bilateral relationship has been plagued by tensions. The rise of far-right challengers put both governments under strong domestic pressure, and the starkly different personalities of Chancellor Scholz and French President Emmanuel Macron made mutual understanding even more difficult. In October 2022, a regular meeting between the two governments was cancelled at short notice due to a lack of agreement

on several issues, such as energy, enlargement, and defence policies – something that had never happened before.

In addition, other member states have become increasingly wary of the “compromise by proxy” logic. This was most evident in the policy towards Russia, where Germany and France were both seen as advocating a more cooperative Western European approach, in contrast to the more critical positions of many Northern, Central and Eastern European countries. The declining influence of the tandem has also been visible in other areas. In March 2024, the EU Council adopted the platform work directive despite both Germany and France abstaining, the first time the two countries were outvoted together in a public vote.

“Looking ahead, a potential CDU-led government would likely be less ambitious in its EU policy than its predecessor.”

Despite all this, no clear alternatives to the Franco-German power centre have emerged in the EU Council. Among the many minilateral formats, such as the Nordic-Baltic Six or the Visegrád Four, none has developed a comparable EU-wide projection. At the same time, the influence of other relatively large member states, such as Italy, Spain, or Poland, has been limited by the instability or far-right ideology of their recent governments, which often leads them to prioritise narrowly defined national interests over EU-wide solutions. The “Weimar Triangle”, a grouping of Germany, France and Poland, could serve as a way to extend Franco-German cooperation eastward, but its viability so far depends heavily on Poland’s political leadership at any given time. While pro-EU parties are now leading the government in Warsaw, the nationalist-conservative and Eurosceptic right was in power from 2015 to 2023.

To some extent, the resulting EU leadership vacuum has been filled by the European Commission, headed by German Ursula von der Leyen since 2019. In accordance with her treaty obligations, von der Leyen has acted with a supranational interest in mind and has not had a privileged relationship with the German government. Nevertheless, she has

7 Müller, M. (2022) “Germany’s most pro-European government ever?” *International Politics and Society*, 17 January. <https://www.ips-journal.eu/topics/european-integration/germanys-most-pro-european-government-ever-5644/>.

8 Müller, M. (ed.) (2024) “Priorities of the new EU Commission: Struggling to balance long-term goals with short-term needs”. *FIIA Briefing Paper* 396.

occasionally shown an affinity with predominantly German views, most clearly and controversially in her support for Israel. Whether a potential chancellorship under Friedrich Merz would lead to a closer alliance remains an open question. Although Merz and von der Leyen are members of the same party, she belongs to the more liberal and he to the more conservative wing of the CDU.

Looking ahead, a potential CDU-led government would likely be less ambitious in its EU policy than its predecessor. While generally pro-European, the CDU/CSU employs more intergovernmentalist rhetoric than the SPD and the Greens and tends to place greater emphasis on national interests in economic and fiscal policies. On the other hand, the next government could be more stable than the last, which may also lead to a more efficient European policy – and reinforce German leadership in the absence of better alternatives.

The multiple challenges to German foreign policy

Beyond domestic and EU-level issues, several international developments have cast doubt on and undermined some of Germany's long-term foreign policy tenets. Russia's full-scale invasion of Ukraine in 2022 upended decades of cooperation-focused *Ostpolitik* towards Moscow. Its consequences included a revision of German security culture, which had previously downplayed the appropriateness and usefulness of military force as a foreign policy instrument. The so-called *Zeitenwende* – announced by Chancellor Scholz in February 2022, when he declared that his government would allocate a €100 billion fund to increase military spending – is perceived as a decisive shift from the post-Cold War era due to its focus on remilitarisation, although its implementation has faced several challenges.

After February 2022, Germany was quick to acquire liquefied natural gas terminals and to secure energy supplies from other exporters. However, it has struggled to fully replace abundant and competitively priced Russian gas. At the same time, Germany lacks a vision for a new comprehensive Russia policy and has largely left the initiative to the United States. As a consequence, even though Germany is the second-largest provider of military aid to Kyiv after the US, some European allies have accused it of being too

slow and hesitant. Domestically, this has also become a party-political issue, with the CDU/CSU, Greens and FDP pushing for more weapons for Ukraine, whereas the AfD, BSW and the Left criticise this approach, and the SPD remains internally divided.

These discussions could be intensified by Donald Trump's re-election, which poses a major challenge to Germany's and the EU's approach to the war in Ukraine and to European security. Based on his election campaign statements, Trump may advocate a solution to the war that does not align with the principles cherished by the EU. This could trigger new debates about the conditions under which Germany should or should not support a ceasefire or the lifting of EU sanctions against Russia. Trump has also repeatedly suggested that the US commitment to NATO depends on allies' readiness to increase their defence spending. Both a substantially higher defence spending target within NATO and a US that questions its commitment to the Alliance would challenge Germany's current defence policy and plans.

Another challenge for Germany lies in the economic sphere. Trump has advocated economic decoupling from China, which is difficult for Germany given that China is its largest trading partner and a prime destination for German exports.⁹

Meanwhile, EU-US trade relations have remained tense even under the more diplomatically cooperative Biden administration. Trump's plans to significantly increase tariffs threaten Germany's export-driven economy. A central task for the incoming German government will therefore be to prevent a transatlantic trade war. To safeguard critical economic ties, German and other EU leaders could be pressured into crafting a compromise or "deal" that Trump can frame as a victory for his domestic base.

Overall, US domestic and foreign policy trends suggest that Washington is progressively relinquishing its role as Europe's security provider, as well as its support for economic openness and liberal democracy.¹⁰ This does not bode well for Germany,

9 Statistisches Bundesamt (2024) "The People's Republic of China is again Germany's main trading partner". <https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/trading-partners.html>.

10 Overhaus, M. (2024) "Europe and the End of Pax Americana". *SWP Comment* 45, October. <https://www.swp-berlin.org/publikation/europe-and-the-end-of-pax-americana>.

which has anchored its economic and security policies to the EU, NATO and, ultimately, to the global leadership of the United States.

Recently, new transatlantic ties have emerged among far-right and populist forces, challenging Germany's liberal foreign policy from within. Trump's election victory has emboldened the AfD, which interprets it as a validation of its own narratives on issues such as Ukraine, immigration, and climate policy. The recent endorsement of the AfD by Elon Musk underscores the growing influence of these ties.

The war in Gaza and the broader crisis in the Middle East have posed further tests for German foreign policy. Successive German governments have maintained that Israel's security is part of Germany's *raison d'état*, not least because of the country's enormous historical burden. The principle that genocide must never happen again (*Nie wieder*) underpins Germany's support for Israel. However, this linkage has been challenged by the fact that the International Court of Justice (ICJ) is now investigating whether Israel itself has committed genocide in Gaza.

While the case remains open, Germany swiftly intervened on Israel's behalf at the ICJ. This led to accusations, particularly from countries in the Global South, that Germany's *Nie wieder* motto is not universal, but reserved for a single community. Symptomatically, Namibia – a former German colony where Germans committed genocide in the early 20th century, an issue finally acknowledged by Berlin in 2021 – condemned Germany for dismissing the case brought against Israel at the ICJ.¹¹

Overall, the election is unlikely to bring about fundamental changes to German foreign policy. While both the CDU/CSU and the Greens have repeatedly criticised the SPD for being too hesitant towards Russia, the parties share a broadly similar understanding of the international challenges facing Germany. Particularly in the case of a grand coalition, foreign policy changes will be gradual at most and are likely to prioritize the needs of the country's export-driven economy.

Conclusions

Confronted with structural challenges in domestic and foreign policy, Germany is struggling to adapt. The country faces tense debates and uncertainty over how to approach Russia, China and, following Trump's re-election, the United States. The role of military force as a foreign policy tool – rather than relying exclusively on diplomatic, economic, or civil-society measures – remains a divisive topic.

Furthermore, Berlin's pro-Israel stance in the Gaza war has eroded its image as a norms-driven actor, particularly in the eyes of many countries in the Global South. These foreign policy issues are compounded by Germany's difficult economic situation, the rise of the far right, and infrastructural challenges that stem from long-term underinvestment.

Most of these problems are not specific to Germany alone. Managing the crisis with Russia, economic relations with China, and Trump's unfriendly stance are issues for the whole European political establishment. The far right has acquired popularity and even risen to power in other EU states, whereas in Berlin the *cordon sanitaire* keeping it out of government has held so far – even if it has been and is likely to be challenged, especially at the regional level.

Still, Germany's challenges are particularly relevant given its specific economic and political weight in Europe. While recent developments may have dented Germany's status in the EU, it is highly unlikely that the Union will overcome ongoing internal and international crises without Germany's contribution and leadership. The Scholz government faced intense international criticism over its foreign and security policies, but any future German leadership will operate under similar structural constraints and domestic pressures. Even if the 2025 election yields a more stable government, finding solutions to the multiple issues confronting the country will not be an easy task. ◆

11 Kupemba, D. N. (2024) "Namibia criticises German support for Israel over ICJ genocide case". *BBC*, 14 January. <https://www.bbc.com/news/world-africa-67974067>.

BRIEFING
PAPER
403
February 2025

ISBN 978-951-769-818-4
ISSN 1795-8059
Language editing: Lynn Nikkanen
Cover photo: Kay Nietfeld, DPA / Lehtikuva