

0.2% Real GDP growth 2025 (~1.0% 2023; 0.0% 2024)	~€4.5 trn Nominal GDP 2025, ~\$5.05 trn; 3rd largest	\$60,200 GNI per head 2025 (UK \$54,550)	~40% Exports % of GDP 2025 (US 11%)	+4.5% Current account surplus % of GDP 2025 (€197 bn)
2.2% CPI 2025; 3.3% Sept 2026 (energy +14.9%)	3.7% ILO unemployment 2025; ~3 m registered (6.4%)	23.7% Aged 65+ (2025); population falling	~0.34 Gini (World Bank 2022); US ~0.42	€500 bn Infrastructure fund from 2025 debt-brake reform

STRUCTURE OF THE ECONOMY

	% OF VALUE ADDED (APPROX.)	% OF JOBS (2025)
Agriculture	~1.0	1.1
Industry	~27.8	25.9
Services	~71.2	73.0

- Far more industrial than the UK or US; a quarter of jobs in industry.
- AD mix:** C ~53% of GDP (UK ~60%, US ~68%), weak I, rising G, large positive (X-M).
- High saving (~10% of income):** ageing, wage restraint, half of households rent.
- System:** social market economy; worker reps on boards; ECB sets rates.

MAIN INDUSTRIES

- Cars:** VW, BMW, Mercedes; China sales –25% in 5 years (3.9 m, 2025).
- Machinery:** Mittelstand family firms; "hidden champions" in niches.
- Chemicals:** BASF; hit hardest by loss of Russian gas.
- Industrial tech & pharma:** Siemens, Bosch, Infineon; Bayer, BioNTech.
- Defence:** Rheinmetall; spending above 1% of GDP outside the debt brake.
- Energy & services:** renewables over half of power; SAP, Allianz; ECB in Frankfurt.

GROWTH STORY: TURNING POINTS

1948 Social market economy; 1950s "economic miracle"	1990 Reunification: transfers east; lasting gap	1999 Euro: ECB sets rates; "sick man of Europe"	2003–05 Hartz labour reforms: supply-side
2009 Debt brake; Kurzarbeit saves jobs	2022 Russian gas cut; inflation 6.9%	2023 Recession; nuclear exit; budget ruling	2025–26 Debt-brake reform, €500 bn fund; US tariffs; new energy shock

Why growth stalled (2023–25): cheap gas gone, China a rival not a customer, US tariffs, low public investment, ageing workforce.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Stagnation	GDP 2025 <1% above 2019	Output gap, LRAS
Car industry	China sales –25%; VW 35,000 job cuts	Competitiveness
Energy costs	Russian gas ~55% (2021) → 0	Cost-push, SRAS
Industrial decline	Manufacturing –1.3% (2025)	Structural change
Ageing	23.7% aged 65+; skills shortages	Labour supply
Underinvestment	Investment –0.5% (2025)	Infrastructure, LRAS
Export dependence	Exports to US –9.4% (2025)	Protectionism
Rising unemployment	~3 m registered; jobs –212,000	Cyclical vs structural

INEQUALITY & DEVELOPMENT

- Gini ~0.34: below US (0.42), above Norway (0.27).
- Wealth far more unequal than income; about half of households rent.
- East still poorer than west 35 years after reunification.
- Minimum wage €13.90 (2026), €14.60 in 2027.
- About 1 in 7 at risk of relative poverty.
- Public debt 63.5% of GDP (2025): lowest in G7.

Is the German model broken? For: energy, China, tariffs, ageing. Against: skills, low debt, €500 bn fund, defence boom.

CLASSIC CHAINS USING GERMANY

Energy shock: gas price ↑ → costs ↑ → SRAS shifts left → price level ↑, real output ↓ → exports less competitive than US or Chinese rivals.

Export dependence: US tariff / Chinese competition → German exports ↓ → (X-M) ↓ → AD ↓ → manufacturing jobs ↓ → negative multiplier.

Fiscal reform: infrastructure spending ↑ → AD ↑ via multiplier → better transport and energy networks → firms' costs ↓ → LRAS ↑.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Exports as % of GDP: _____
3. Current account balance, % of GDP, 2025: _____
4. Inflation rate in 2022: _____
5. Debt-brake structural deficit limit: _____
6. Size of the 2025 infrastructure fund: _____
7. Share of population aged 65+: _____
8. Public debt as % of GDP (2025): _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

GERMANY EVIDENCE	LETTER	CONCEPT
1. Gas prices soar after Russia cuts supply		A. Supply-side policy
2. The ECB sets one rate for 21 countries		B. Cost-push inflation
3. Firms cut hours and the state tops up pay		C. Monetary union
4. Apprenticeships combine college and work		D. Structural unemployment
5. Car workers lose jobs as Chinese EVs gain share		E. Fiscal rule
6. Federal structural deficit capped at 0.35% of GDP		F. Short-time work (Kurzarbeit)

C · COMPLETE THE CHAINS

1. Higher energy prices → _____ → SRAS shifts left → _____
2. US tariff on German cars → _____ → _____ → fewer jobs in car factories.
3. ECB raises interest rates → _____ → _____ → German growth slows further.

D · EXAM-STYLE QUESTIONS

Extract. German real GDP rose only 0.2% in 2025. Exports fell 0.3%, a third yearly fall, as firms faced higher US tariffs, a stronger euro and more competition from China. Manufacturing value added fell 1.3%, with cars and machinery hit hardest. Household consumption rose 1.4%; investment fell 0.5%.

(5 marks) With reference to the extract, explain one reason why manufacturing output in Germany fell in 2025.

(8 marks) Examine how a €500 billion infrastructure fund may affect the German economy.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether Germany should rely less on exports and more on domestic demand for future growth.

ARGUMENTS FOR (WITH GERMANY EVIDENCE)	ARGUMENTS AGAINST / DIFFICULTIES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 0.2%
2. About 40%
3. Surplus of about 4.5% (€197 bn)
4. 6.9%
5. 0.35% of GDP (federal)
6. €500 billion
7. 23.7% (accept about 24%)
8. 63.5%

B · MATCHING

1 → B · 2 → C · 3 → F · 4 → A · 5 → D · 6 → E

C · CHAINS

1. Costs of production rise for firms (especially energy-intensive ones) → price level rises and real output falls (stagflation risk).
2. Price of German cars in the US rises → US demand for them falls (depends on PED), so exports and output fall.
3. Borrowing becomes dearer for households and firms → consumption and investment fall, so AD falls.

D · EXAM-STYLE GUIDANCE

5 marks: Identify a reason from the extract (1): higher US tariffs, a stronger euro or competition from China. Explain the chain (2): e.g. tariff raises the price of German goods in the US → US demand falls → exports fall (−0.3%) → manufacturers cut output (−1.3%). Link to export dependence or to cars and machinery (1). Use extract data (1). Alternative: stronger euro makes German goods dearer abroad; weak investment (−0.5%) cuts demand for machinery.

8 marks: Knowledge/analysis: $G \uparrow \rightarrow AD$ shifts right → multiplier effect on output and jobs; better infrastructure lowers firms' costs → LRAS shifts right; possible crowding in of private investment. Evaluation (2 points for full marks): size of multiplier and leakages into imports; time lags and planning delays; capacity limits in construction may raise prices rather than output; higher borrowing may raise bond yields; spread over 12 years, so small each year.

E · 25-MARK PLAN: POINTS TO LOOK FOR

For more domestic demand

- Exports fell 2023–25; US tariffs and Chinese rivals.
- World demand is volatile; surplus invites retaliation.
- Investment gap: infrastructure, digital, energy grids.
- Ageing society needs better public services.
- Higher wages and consumption raise living standards directly.

Against / difficulties

- Comparative advantage in engineering; export jobs pay well.
- EU single market still open and growing.
- Extra spending may leak into imports.
- Debt brake and ECB rates limit how fast demand can rise.
- Capacity and labour shortages may cause inflation.

Judgment: Germany needs a better balance while keeping its export strengths. The 2025 fiscal reform is a shift towards domestic demand; success depends on spending the money well and on lower energy costs. Compare China's rebalancing debate and the US's consumption-led model.