OPINION | Financial policy

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France in crisis: Why Germany is not facing the same threat

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Germans who look anxiously at Paris run the risk of ignoring the real challenges facing this country, write the experts at Fiscal Future. A forward-looking fiscal policy, on the other hand, has the potential to restore confidence in the state's ability to act.

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France is in crisis. Within a few months, the second government has fallen – and again it was an austerity budget that broke the camel's back.

Some now see France's crisis as a warning to Germany. However, a closer look reveals that the problems in France are one thing above all: French. They simply do not translate to Germany. Anyone who argues this overlooks the economic and institutional differences between the two countries.

In purely numerical terms, the situation in the two countries is completely different. France currently has a debt ratio of around 114 percent, which is set to rise to more than 128 percent by 2030 according to IMF forecasts. In Germany, the debt ratio was 62.5 percent in 2024 and is only expected to rise to around 75 percent by 2030 despite special funds and defense spending, according to IMF forecasts.

More important, however, are the structural differences. France has not had a sustainable budget policy for many years. Germany, on the other hand, has consistently invested far too little over the last few legislatures in order to comply with the constitutional debt brake. The result: a huge restructuring backlog. France's credit rating was downgraded on Friday. In contrast, the fact that Germany is taking on debt with the financial package in order to invest is viewed positively by international investors and rating agencies.

Is the right lesson from the French budget crisis to cling to our debt brake? On the contrary: a rigid fixation on the debt brake is blocking urgently needed investments in infrastructure, defense, and climate protection that benefits all of Europe. Those who look anxiously to Paris run the risk of delaying the real challenges in this country.

One important step way that the new German government's special infrastructure fund finally made it possible to make sufficient investments in modernization. It is not the debt ratio alone that determines sustainability, but the strength of our economy. Although our debt ratio is rising as a result of the financial package, our debt sustainability is still guaranteed. Every euro from the special fund that flows into schools or bridges pays off: Investments generate growth and higher tax revenues, which can be used to pay debt service. This reduces the pressure on budgetary policy – and therefore the risk of an exceptional political situation such as in France.

France's crisis is therefore not a warning for Germany. The real danger for Germany lies in continuing to ignore the necessary investments. Different principles should therefore apply to different countries when it comes to budgetary policy. The EU also recognized this in the reform of its fiscal rules in April 2024. The new rules provide for each member state to agree a country-specific spending path with the EU Commission in the event they do not comply with the rules.

This logic of flexibility must also be incorporated more strongly into the German debt rules. Despite the financial package, a smart reform of the debt brake is still needed in the long term. Fiscal Future recently carried out a brief study together with the Bertelsmann Stiftung on what this could look like. In it, we shed light on how the current patchwork of European and national rules could be simplified – and how the German debt rule could be more closely aligned with EU fiscal rules.

In one respect, France really is a warning for Germany: The current national crisis shows how budgetary policy in particular comes under increasing pressure when extreme parties gain ground and make it more difficult to find a political majority in parliament. France's crisis is not just a budget crisis, but also a crisis of democracy.

It was therefore all the more important that the parties of the democratic center in Germany could agree on the financial package and show willingness to reform the debt brake. Now the money must also flow so that people on the ground feel the investment policy is changing things for the better. Currently, only 23% of Germans still have confidence in the state's ability to act. A forward-looking financial policy has the potential to win back this trust.

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