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## Germany faces its worst nightmare – becoming France

Friedrich Merz, the chancellor-in-waiting, has the in-tray from hell as country tries to cope with increasing economic downturn

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The exit poll says Friedrich Merz will be the new German chancellor Credit: Reuters/Fabrizio Bensch

Germany is facing its worst nightmare – becoming France.

Friedrich Merz, the [chancellor-in-waiting](#) after winning elections on Sunday, has the [in-tray from hell](#). Huge sums of money must be found for the misfiring economy, pensions and defence.

The leader of the conservative CDU will be under a lot of pressure to tear up public spending and debt rules that run deep in the national psyche.

The hyperinflation suffered in 1920s Weimar Germany, which wiped out savings and made the currency worthless, is blamed for the rise of Hitler.

More recently, German fiscal discipline was the stick used to beat Berlin's EU allies.

During the [eurozone crisis](#), well-heeled German politicians lectured countries such as Greece, Italy and Spain for their irresponsible spending.

Berlin insisted on strict EU-wide limits on budget deficits and public debt after playing an influential role in financing and designing the eurozone-bailout programmes.

Glory days are over

The German economy, the richest in the EU, has been the envy of Europe for decades. Those days are over. The economy [shrank for the second year in a row](#) in 2024, inflation is at its highest for half a century and energy prices are high. German industry was cut off from cheap Russian gas after [Putin's invasion of Ukraine](#).

Production and exports have slumped, sales to China are down, and there is now the [prospect of US tariffs](#) imposed by Donald Trump. Infrastructure and businesses are in dire need of modernisation in a land where the fax machine is not yet extinct.

The population is ageing. Baby boomers born during all-time high birth rates between 1955 and 1969 are retiring, while the workforce shrinks.

This has created a looming pensions crisis. But reforming a system pegged to wage inflation is politically explosive with older and influential voters.

A third of all government spending – about £105 billion – went to pensions last year. That will almost double by 2050.

It's a terrifying bill to pay but Germany also has to start [spending big on defence](#) to deter the [threat of Russia](#) and satisfy US demands. Donald Trump won't accept Berlin pleading poverty.

Last year, Germany had a record trade surplus of more than £59 billion with the US, its largest trading partner and where it sends more than 10 per cent of its exports.

Olaf Scholz, the [outgoing chancellor](#), announced €100 billion (£83 billion) to overhaul the German Army after the invasion of Ukraine. Progress since has been slow and inflation has nibbled away at the fund.

Mr Scholz, who led his SPD to third, their worst ever post-war election result, has only promised to meet the minimum Nato defence spending target of 2 per cent of GDP.



Olaf Scholz led his SPD to third, their worst ever post-war election result Credit: AP/Ebrahim Noroozi

Mr Merz has also refused to commit beyond that target, which won't please a tariff-wielding US President who expects closer to 5 per cent.

The fiscal conservative must now decide what to do with Germany's debt brake, which was introduced after the 2008 financial crisis.

The brake, enshrined in the constitution, limits the federal budget deficit to 0.35 per cent of GDP, while German states must, since 2020, have balanced budgets with zero new borrowing.

Mr Scholz's efforts to reform the rules led directly to the fall of his dysfunctional coalition, Sunday's election and his expected ousting from power.

Change, which requires a two-thirds majority in the Bundestag, will be even more difficult for a conservative than the centre-Left Mr Scholz.

Mr Merz has suggested he might be willing to weaken the brake to allow for investment in the economy but not to pay for social policies.

Joint European borrowing and pooled debt with EU allies has been mooted to ramp up defence spending after decades of neglect.

Putting German taxpayers on the hook for other more spendthrift EU countries remains hugely controversial, even after Angela Merkel bust the taboo as a "one-off" to fund the bloc's huge pandemic recovery fund.

Germans associate high debt with economic and political instability.

France, the only rival to Germany as the [EU's most influential country](#), is already [mired in high public debt](#) and is in breach of European rules on national budgets.

Paris also knows it must spend more on defence, especially if Mr Trump withdraws US security guarantees to Europe.

Emmanuel Macron's efforts to reform the French pensions system led to riots and helped create a political crisis that has left him a lame duck president.



Protests were held across France in 2023 after the French government forced through pension reforms without a vote in parliament Credit: Kiran Ridley/Getty Images

France is on its second government in just under three months and few would bet on it lasting long in the fragmented and polarised world of French politics.

Like Germany, French voters are concerned about immigration and security after [terrorist attacks in both countries](#).

Marine Le Pen's eurosceptic hard-Right National Rally is the largest party in the French parliament. She is poised for [another run at the Elysee](#) in 2027, when Mr Macron cannot stand.

In Germany, the [AfD almost doubled its vote share](#), according to the exit polls, and will become the main opposition party after the best results for a far-Right party since Hitler.

It will be waiting to pounce if a Merz coalition falls over one of the many hurdles it is facing. The prospect of eurosceptic leaders in Paris and Berlin in a few years will give EU officials in Brussels nightmares.



The AfD, led by Alice Weidel, was projected to come second with 20 per cent of the vote, the best result for a far-Right party since Hitler Credit: Shutterstock/Soeren Stache

As things stand the European Commission judges Germany to be within deficit and spending limits, while France most definitely is not.

Last year, the French debt reached more than £2.7 trillion, which is 113.7 per cent of GDP. Germany's public debt is more than £2 trillion, roughly 62.4 per cent of GDP.

Mr Merz may calculate that the only solution to Germany's many problems is to bite the bullet, face the political blowback, and get out the national credit card.

That risks Germany breaking the very EU fiscal rules which Berlin demanded and which can lead to fines from Brussels.

After years of being scolded by Berlin, that would be greeted with much schadenfreude in southern Europe.

No longer a special case, Germany will become like every other European country.

For Germans, it will be a profoundly unsettling experience as they anxiously look at France's mountains of public debt and ask, "will that be us in a few years' time?"