

Joachim Nagel: Exports under pressure - why Germany needs to act now

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, to the Harvard Club Rhein-Main, Frankfurt am Main, 17 September 2025.

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Check against delivery

1 Introductory remarks

Ladies and gentlemen,

Your membership of the Harvard Club is an expression of your ties to Harvard University.

I myself have visited Harvard a number of times and have given lectures there. So I can certainly understand your enthusiasm for the institution. Its academic excellence, cosmopolitan atmosphere and the inspiring culture of debate have impressed me every time.

2 Negative impact of US policy

All the more shocking did I find the US administration's crackdown on the university. Research funding was cancelled, and foreign students had their visas revoked. The government evidently wanted to make an example of the university.

If such measures stand up in court, they jeopardise academic freedom and the liberty of teaching. And they could damage the reputation of one of the world's most prestigious higher education institutions.

There are worrying trends emerging elsewhere in the United States, too. As President of the Bundesbank, I am particularly concerned about the treatment currently being meted out to the US Federal Reserve: the discrediting and defamation of the Fed's leadership, the unabashed challenges to its independence.

I have a great deal of respect for the way in which Jay Powell is handling the verbal attacks—how he is focusing on his job and fulfilling his mandate.

If the Fed's independence were to be politically undermined in a lasting way, it would have grave repercussions. It would jeopardise US economic and financial stability and endanger the country's prosperity.

But it could also tempt short-sighted politicians in other countries to put pressure on their independent central banks, badgering them to lower interest rates more sharply than a stability-oriented mindset would consider advisable. For instance, in response to a cyclical flash in the pan or to provide fiscal relief for a state heavily in debt.

Anyone familiar with the capital market knows, of course, that the policy rate is just one factor among many that influences long-term interest rate levels. Inflation expectations also play a role. And when inflation expectations rise, risk premia lead to higher capital market rates.

Policy rate cuts do not, in and of themselves, automatically entail fiscal relief. In fact, the opposite is sometimes true. Indeed, there were signs that attacks on the Fed may have contributed to a steepening of the US yield curve on corresponding trading days: lower yields at the short end and higher yields at the long end. This shows that financial markets are fully cognisant of the importance of central bank independence.

A clear mandate for stable prices and the ability to go about this task in an independent manner: these are the prerequisites for us, as central banks, to be able to credibly and successfully combat inflation.¹

Another area in which the US administration is straying from the path of stability and reliability that it has trodden to date is in trade policy. By doing so, it is not only harming its trading partners—people in the United States are also going to feel the consequences. Because tariffs and other trade restrictions reduce prosperity across the board.

When the European Union reached a deal with the US administration in July, the talk was of two major benefits. First, it means that we're spared a trade war where both sides seek to outdo each other with countermeasures. Second, the agreement around tariffs was supposed to have eased uncertainty. Exporters, so it was said, would now know where they stand.

That only applies, of course, so long as the US administration considers itself bound by the agreement. Recent threats and restrictions raise doubts as to whether the agreement will hold up for long.

But even if it lasts, US tariffs will weigh on European exporters. German firms, in particular, will suffer.

But buyers of European goods in the United States will suffer as well. The average US tariff on EU goods is likely to increase tenfold, from 1.5% under the previous administration to around 15%. At more than 16%, US tariff rates vis-à-vis all trading partners are now at their highest level since the 1930s.

3 Current monetary policy

Who ultimately bears the burden of tariffs will become clear over time. That's not up to the government, but the markets.

The fact that consumers in the United States are feeling the effects of tariffs in the shape of higher prices is undisputed, though. And costs are on the rise for firms that use European goods as inputs, too. It is not yet clear how much this is stoking inflation.

However, falling sales and narrowing margins are also weighing on exporters in Europe. They are not going to be able to sell the same quantities at the same price.

This will continue to weigh on the already weak growth in the euro area and Germany, albeit not as heavily as the tariffs that were originally threatened would have done. Overall, GDP losses are likely to remain modest.

At the beginning of the year, front-loading in anticipation of higher tariffs had given a boost to economic activity. The euro area economy has since returned to a more moderate growth path.

The ECB staff macroeconomic projections published last week are somewhat more optimistic for the current year than they were in June. ECB staff now expect economic growth of 1.2% instead of the 0.9% previously projected. Looking ahead to the next two years, they are anticipating growth of 1.0% and 1.3%. However, US trade policy will continue to add an element of uncertainty to the assessment.

Unlike the effects of US tariffs on growth, the picture in terms of price effects in the euro area is less clear. Overall, tariffs could even have a slight dampening effect on inflation through their impact on the exchange rate.

Taken by itself, the announcement of US tariffs might have pointed towards an appreciation of the US dollar, with tariffs dampening import demand in the United States and driving up prices.

In actual fact, the dollar has depreciated significantly against the euro. This is seen as indicative of doubts around the greenback's status as a safe haven.

The increased external value of the euro against the US dollar is leading, for instance, to lower import prices in the euro area. Since crude oil is traded in US dollars worldwide, you might notice it when you go to the petrol station, say.

The ECB staff's inflation outlook remains consistent with our medium-term inflation target of 2%: they're expecting an average inflation rate of 2.1% for this year and are reckoning with 1.7% and 1.9% in 2026 and 2027 respectively.

In the light of this picture for inflation, I think the Governing Council of the ECB was right to keep policy rates unchanged when it met last Thursday.

We'd be well advised to remain cautious in the face of the prevailing uncertainties. Our data-dependent and meeting-by-meeting approach to making decisions has proven its worth.

The current monetary policy stance leaves us well positioned to respond to unexpected changes.

4 The reasons for Germany's weak exports

The discussion around tariffs has undoubtedly put a damper on the German export industry.

After all, the United States is our most important trading partner: goods worth more than €160 billion were exported to the United States last year.² That's more than one-tenth of total German exports.

An article in the Bundesbank's July Monthly Report, though, shows that German exports had already begun to falter long before the recent trade conflict.³ The Bloomberg news agency reported on this in a story headlined "Germany Can't Blame Trump for Slide in Exports".⁴ That's true.

Neither can the blame for Germany's weak exports be laid solely at the feet of Russia's war against Ukraine and the energy crisis that it triggered. Nor can the COVID-19 pandemic be made fully responsible.

There is no doubt that both events weighed heavily on the German economy. However, the Monthly Report article explains that Germany has been losing market shares in international trade since 2017—i.e. even before COVID-19 hit and Russia launched its invasion.

In the past, foreign trade was often the engine of growth in Germany. Exports were the driving force behind economic upturns in many cases.

This engine is now stuttering. Our experts have been looking into the reasons behind this, as only those who know the causes of the losses can draw the right conclusions for economic policy.

It's a fact that not only the growth of German sales markets has slowed. German exports have actually seen significantly weaker growth. This means that the German export industry has suffered global market share losses.

If Germany's exports had kept pace with the sales markets, the growth in the German economy between 2021 and 2024 would have been almost 2½ percentage points higher. That's a significant amount—particularly if we consider that the German economy more or less stagnated during this period.

Our experts have developed a new empirical approach to explore the causes of the losses of export market shares in more depth. This makes it possible not only to distinguish between supply-side and demand-side developments, but also to look at key categories of goods and trading partners.

Supply-side effects capture how a country's competitiveness has changed in terms of individual economic sectors or in certain destination markets. This enables a detailed analysis and assessment of international competitiveness.

Without going into the technical details of this method, I would like to summarise the key finding from the study. The decline in the German economy's export market shares since 2017 can be explained, in particular, by a deterioration in competitiveness.

Around three-quarters of the decline since 2017—and an even higher share since 2021—can be attributed to supply-side effects, in other words a reduction in competitiveness.

But why is this the case? A whole host of reasons need to be mentioned here.

One of which is certainly the high energy prices in Germany. They are placing a heavy burden on energy-intensive sectors, in particular, such as the chemical and metal industries. Although energy prices have also risen in other countries following Russia's attack on Ukraine, those increases have not been on a comparable scale.

Another one-off development of recent years was the supply chain disruptions during the COVID-19 pandemic. They hit German industrial firms harder than other countries. This also highlighted the risks of unilateral dependencies.

As a result, key sectors such as the machinery industry and electrical industry became less competitive. However, numerous other sectors also recorded losses—these were broadly based overall. This points to fundamental structural problems in the German economy, which many firms are facing.

These structural problems include the shortage of skilled workers, rising unit labour costs, a high tax burden and considerable levels of bureaucracy. According to a study by the ifo Institute, the latter has cost the German economy up to €146 billion per year to date.⁵ Many firms view bureaucracy as a barrier to investment.

In addition, there is growing competitive pressure from China.⁶

While the German export industry is losing market shares in many sectors and markets, China is gaining more. This is mainly due to China's continuous improvement in its competitive position, particularly in the area of medium and high-tech industrial goods, as shown by the Bundesbank's analysis.

In addition to competitiveness, Germany's export goods mix—a guarantee of success for decades—also contributed to the losses in market share.

Many German firms specialise in products that have recently experienced a decline in demand around the world. This explains just over one-third of the total losses in market share since 2017.

For instance, the German automotive industry has been suffering from weak global demand since around 2018, especially in China amid falling demand for cars with internal combustion engines.

Another example of an industry that plays a relatively significant role in Germany's export goods mix is aerospace technology. It, too, has been suffering from lower global demand for some years now.

5 Urgent action is needed

Pressure to take action is therefore patently obvious.

It is up to firms to develop competitive products. And German politicians can take effective measures to boost competitiveness.

Smart economic policy strengthens supply conditions in Germany. It is now a matter of reducing bureaucracy, promoting the immigration of skilled workers in a targeted way, creating incentives to work and making investment more attractive from a tax standpoint.

Boosting the efficiency of the energy transition and diversifying supply chains are other core building blocks for strengthening and making our economy more resilient.

I outlined these and other points in my speech at Humboldt University following the recent general election.⁷ There I discussed how we in Germany could return to a higher path of growth.

Six months have passed since then and a new Federal Government has taken office. It should be noted that it has already initiated measures to improve supply conditions.

I am thinking, for instance, of the new option of applying a declining balance depreciation for equipment investments, referred to as the "investment booster". Or of the reduction in the electricity tax for industrial firms.

But that is not enough. More improvements are needed. Important reforms are still outstanding. But, on Monday, "the autumn of reforms" begins.

At the end of the last legislative period, the Bundestag amended Germany's Basic Law and opened up new fiscal scope. Now it's a matter of making targeted, rapid and efficient use of this new scope to ensure that more investment is actually made. Namely in projects that increase our growth potential.

According to the Bundesbank's calculations, the new scope for borrowing is unfortunately being used to a considerable degree to create other fiscal leeway. Legislators should ensure that the additional funds are also used for additional investment.⁸

Our aim must be to make the German export industry more competitive again. At the same time, our goal should be to boost domestic dynamics so that our growth model is less dependent on exports. After all, a strong domestic economy in Germany and Europe is the key to becoming more independent from the rest of the world and achieving sustainable growth.

We must not forget what we can build on. Germany has many strengths: these include highly skilled workers, a strong industrial base and a high level of innovative capacity. These strengths need to be drawn on.

And what we also mustn't forget is the economic potential rooted in deepening European integration.

Europe should see the US tariffs as a wake-up call and take the opportunity to rapidly advance the European single market. We should at long last create the savings and investments union in Europe so that it becomes more attractive to invest here. For Europeans and non-Europeans alike.

Former ECB President Mario Draghi made numerous proposals on how to make Europe more competitive. Our task is now to implement these proposals. Thus far, only a fraction of these have been achieved.

At the same time, Europe should open up to other economic areas and seek free trade agreements. The recently negotiated free trade agreement between the EU and the Mercosur countries is an important achievement in this direction.

I sincerely hope that the agreement will be ratified soon. Further agreements with other countries should follow. And then perhaps also somewhat faster than the EU-Mercosur agreement, which was under discussion for over 25 years.

Europe's locational advantages are now very clear: Europe stands for the rule of law. Europe is a values-based, reliable partner and respects academic freedom.

Europe has a central bank whose independence is neither jeopardised nor challenged. And with 450 million inhabitants, the EU is the world's largest single market.

Europe must now work more closely together and become more resilient.

One of the founding fathers of the European project, Jean Monnet, coined the phrase: "Europe will be forged in crises and as the sum of the solutions adopted for those crises". That still holds true today. And I am confident that the "sum of the solutions" can be a good one.

¹ Cukierman, A., S. B. Webb, B. Neyapti (1992), [Measuring the Independence of Central Banks and Its Effect on Policy Outcomes](#), The World Bank Economic Review, Vol. 6, No 3, pp. 353-398, Klomp, J., J. de Haan (2010), [Inflation and central bank independence: a meta-regression analysis](#), Journal of Economic Surveys, Vol. 24, pp. 593-621, Jung, A., D. Romelli, E. Farvaque (2025), [Do central bank reforms lead to more monetary discipline?](#), ECB Working Paper No 3049.

² Federal Statistical Office (2025), [Die Vereinigten Staaten sind Deutschlands wichtigster Handelspartner](#).

³ Deutsche Bundesbank (2025), [What's behind the sustained decline in German export market shares?](#), Monthly Report, July 2025.

⁴ Randow, J. (2025), [Germany Can't Blame Trump for Slide in Exports, Bundesbank Finds](#), Bloomberg.com, 14 July 2025.

⁵ ifo Institute (2024), [Entgangene Wirtschaftsleistung durch hohen Bürokratieaufwand](#), study commissioned by the Chamber of Commerce and Industry for Munich and Upper Bavaria. Sum for the period 2015 to 2022.

⁶ Deutsche Bundesbank (2024), [Competitive pressure from China on Germany and other advanced economies](#), in: Global and European setting, Monthly Report, November 2024.

⁷ Nagel, J. (2025), [Economic policy measures to boost growth in Germany](#), speech held at the Berlin School of Economics, 10 March 2025.

⁸ Deutsche Bundesbank (2025), [Public finances](#), Monthly Report, August 2025.