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The path for a stronger EU economy: Structural reforms, Simplification and Savings and Investments Union

It is, of course, a real pleasure to be here at Eurofi. As you mentioned, I have attended this forum on numerous occasions. During my time at the German Federal Chancellery, I took a short break from these events, but it is truly good to be back—especially at such a crucial moment for Europe. We are facing a period marked by considerable economic uncertainty, driven by a range of ongoing developments, many of which I am sure we will explore in depth today.

Europe's investment needs are immense. The Draghi Report highlighted the requirement for approximately €800 billion in additional annual investment. What better forum than Eurofi to discuss how to bring together the public and private components of that funding?

So, what is Germany's contribution? As you know, we have made significant announcements, underpinned by constitutional changes aimed at facilitating increased investment in defence and infrastructure. Just this week, we presented our coalition agreement, and I would like to highlight a few key points that are particularly relevant to the European debate.

I want to emphasise the importance of our recent investment decisions in the areas of defence and infrastructure. This programme will exceed €1 trillion over the coming years. In terms of defence, we have deliberately avoided setting a fixed amount for our commitment to NATO's

European pillar. Instead, in Eurofi terms, we are treating it as a call option on what is required for Europe's defence spending. That means we will allocate 1% of GDP from our core budget, and any spending above this threshold will be exempt from our national debt rules. As a result, the German Chancellor attending the NATO summit will have full fiscal flexibility to agree on whatever funding is necessary to bolster Europe's defence.

This is a deliberate and significant signal: for us, fiscal constraints must not limit our contribution. What matters is what is needed militarily. In this area, Europe has undeniably lagged behind. It was only after the *Zeitenwende*, prompted by Russia's invasion of Ukraine, that we met NATO's 2% spending target. Years of underinvestment have left a backlog of needs in equipment, infrastructure and broader military investment. It is imperative that we catch up and address this shortfall.

We are working on multiple fronts. On the one hand, we are investing in traditional defence capabilities such as tanks, ships, and submarines, as well as munitions and broader defence technology. On the other, infrastructure is a major priority.

Last week, in my capacity as Chair of the KfW Supervisory Board, we announced that KfW is now open to financing defence-related projects aligned with NATO objectives. Furthermore, KfW Capital has revised its investment

rules to allow the financing of defence tech companies under the €10 billion Future Fund. This includes support for venture capitalists across Europe investing in this sector. This move is aligned with similar efforts by the European Investment Bank (EIB) and the European Investment Fund (EIF), and with the wider financial community.

Industry now increasingly sees defence as a strategic customer base. While governments will provide considerable funding, the private sector must play a leading role in making the necessary investments. Our goal is to become a reliable, long-term customer that supports the development of a strong European defence industry through consistent demand and firm commitments.

Infrastructure is the other major focus. Our €500 billion infrastructure fund will be deployed over the next 12 years, targeting roads, bridges, railways, airports, digital networks, and healthcare facilities. We have adopted a broad definition of infrastructure that also includes climate-related investments.

The constitutional changes required to implement this programme have been completed with overwhelming support from both houses of the German Parliament. The next step is to translate these changes into specific legislation and budget allocations. This process is currently underway.

This brings me to our coalition agreement. As we move from constitutional reform to concrete measures, we must ensure that the necessary budgetary steps are taken. My colleagues in Berlin are now engaged in detailed budget negotiations to enable timely implementation.

A key element of the coalition agreement is to stimulate economic growth, which is vital to ensuring the affordability of these investments. Financial markets have made it clear that their concern is not whether we can access funding, but at what cost. Germany's borrowing costs will largely depend on our willingness to pursue structural reforms that enhance competitiveness and growth potential.

Germany's potential growth rate has declined from 1.5% to 0.5% over the past two decades. This must change. Credit rating agencies have affirmed our AAA status, but they have also warned that weak growth is a major long-term risk. Weak growth is also a risk in relation to our compliance with the European Stability and Growth Pact, which now places greater emphasis on expenditure and debt sustainability.

The shift from national to European constraints means that increasing our potential growth is essential. Budgetary discipline is necessary, but fostering higher growth is even more crucial. It enables us to align with the European fiscal framework while financing transformative investments.

Our close cooperation with France is essential in this regard. I am very pleased with the strong coordination we have established with Eric and other French colleagues. Together, we are pushing the competitiveness agenda forward, including the Capital Markets Union, the Savings and Investments Union, and other initiatives that are gaining momentum in Brussels.

We have already seen progress with the omnibus package to simplify sustainability reporting. The Council and Parliament have overwhelmingly supported

these measures, and the next two years will be crucial for refining the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

Our aim is to streamline sustainability reporting, reduce duplications, and enhance coherence between the standards of the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG). The current system requires reporting of up to a thousand data points, many of which are unnecessary. We must simplify this framework significantly.

We have been less successful in the area of taxonomy reporting. I have frequently asked for a convincing explanation of the green asset ratio and have yet to receive one. Our position is clear: if a metric remains unclear, it should be scrapped. Unfortunately, the European Commission disagrees and is considering further changes that risk increasing complexity. We believe that existing sustainability reporting requirements are sufficient and that the taxonomy's reporting obligations, including the green asset ratio, should be removed.

On the issue of competitiveness, banking regulation must also be approached with caution. We should resist calls, particularly from the United States, for aggressive deregulation. Our financial system is robust, but further layers of regulation—especially concerning the Fundamental Review of the Trading Book and the Net Stable Funding Ratio—could have unintended consequences. For example, they may incentivise the relocation of government bond trading outside Europe.

Lastly, on trade policy: After a rocky period, recent developments have been more positive. The EU is right to keep the door open to negotiations, to propose tariff reductions—even down to zero—while making it clear that it is prepared to respond with countermeasures if necessary.

This balanced approach is welcome.

Europe must also expand its global trade engagement. If the United States takes a more protectionist stance, the EU should pursue closer ties with countries such as Indonesia and India. Just yesterday, the Prime Minister of Kuwait reminded me of the ongoing free trade negotiations between the Gulf Cooperation Council and the EU.

Reducing global trade barriers may increase pressure on the US to follow suit. Financial markets have consistently responded positively to tariff reductions and negatively to trade tensions. The German Government firmly believes that now is the right time for the EU to push for greater openness in global trade.

Thank you very much, and I look forward to hearing Eric's speech.