



## Deutsche Bank: Germany Risks Becoming “Sick Man of Europe”

In his speech at the Handelsblatt Banken Summit 2023 on September 20, Deutsche Bank CEO Christian Sewing cautioned that Germany could once again risk being labeled the “Sick Man of Europe” if the country does not tackle its structural problems soon.

“We are not the ‘Sick Man of Europe,’” Sewing declared, “but it is also true that there are structural weaknesses that hold back our economy and prevent it from developing its great potential.”

“We will become the sick man of Europe if we do not address these structural issues now,” he continued, singling out problems such as high and unforeseeable energy costs, slow internet connections, obsolete rail networks, a paucity of skilled workers, excessive bureaucracy, and prolonged approval procedures.

Notably, Germany received this unpleasant status of being the “Sick Man of Europe” in the late 1990s and was characterized as such during the early 2000s. European countries are often labeled thus when they encounter economic problems, social unrest, or impoverishment.

Germany has been struggling with challenges in its manufacturing sector due to higher energy costs. Moreover, it officially entered a technical recession in the first quarter of 2023 as GDP growth was altered from zero to -0.3 percent. The Bundesbank (the German central bank) also announced that the economy was likely to shrink this quarter owing to slow private consumption.

“[We] must not deceive ourselves: We are still lagging behind our international competitors, even if the special economic situation caused by interest rates currently glosses over this somewhat — more for some institutions, less for others,” the Deutsche Bank chief executive said.

According to him, European economies should avoid becoming too dependent on “non-European banks.” The biggest task lies with banks, whose roles are changing as a result of the global shifts, Sewing noted.

“In Europe, we need a framework that gives banks more leeway to lend, facilitates capital market financing and enables Europe-wide growth,” the banker suggested.

Earlier this month, Germany’s crucial construction sector was on the verge of collapse, threatening the health of its overall economy, as per *The Economist*, quoting housing giant Vonovia.

*The Economist’s* report stated that the construction sector comprises 12 percent of the country’s GDP and employs a million construction workers.



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“We are sending our construction industry into the abyss,” the chief executive of Vonovia, Rolf Buch, was cited as saying.

The same report added that notwithstanding the German government’s pledge to construct 400,000 flats a year, industry estimates have indicated that about 700,000 a year are required, “not least to house the more than one million Ukrainians” taking refuge in the country.

In 2022, only 295,000 new buildings were built. Buch lamented the resulting scarcity of affordable housing in parts of Germany as a “societal tinderbox.” *The Economist* added that skyrocketing energy prices and expensive building material costs due to supply-chain disruptions have been undermining the construction industry.

Additionally, higher interest rates have added to the cost of debt that many German builders depend upon to launch their construction projects, the report pointed out. Consequently, construction firms and property developers have gone bust, with 437 building companies filing for insolvency in the first four months of 2023, a rise of 20 percent year-on-year.

“It is not a functioning market,” head of think-tank Ifo Clemens Fuest admitted, highlighting red tape, particularly the launch of “rent brakes” as well as stringent environmental regulations.

Besides, the German Property Federation (ZIA) declared in its spring report that housing shortages have likely attained a historic high in two decades. Furthermore, the disparity between supply and demand may broaden to 700,000 buildings by 2025. Based on ZIA estimates, 1.4 million people will be searching for a place to live in 2024 and will not be able to find one “if we don’t turn things around immediately.”

Real-estate experts anticipate a further decline in new residential construction in Germany, as building permits for dwellings slumped 20.6 percent year-on-year in February, the Federal Statistical Office (Destatis) reported in April this year.

The figures revealed in April displayed a total of 22,300 building permits for dwellings being issued in February, signifying a drop of 5,800 permits compared to the same period in 2022. The number of construction permits has been steadily falling since last May, and has declined by 10 percent each month from October 2022, Destatis added.

Industry observers attributed the aforementioned figures to the Covid-19 outbreak, along with material shortages and soaring energy and building-materials prices. ZIA’s president, Andreas Mattner, declared that Germany was already beleaguered by a sobering lack of housing and that a “very bad awakening” is on the horizon for Europe’s largest economy.

Another survey by the German Economic Institute (IW) revealed that over half of German construction companies forecast a decline in output this year, while only 15 percent believed business would improve.

The building industry had warned in 2022 of a drastic drop in residential construction. In 2022, about 280,000 apartments were completed, while it has been anticipated that about 245,000 will be finished this year.

The president of the Federation of the German Construction Industry (HDB), Peter Huebner, verified that high materials prices and rising mortgage rates were adding challenges to residential construction.

In January, German Housing Minister Klara Geywitz recognized that the government’s building target of 400,000 apartments per year would not be achieved in 2023.



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Meanwhile, regarding the Russo-Ukrainian conflict, German Foreign Minister Annalena Baerbock declared that Germany does not agree with Ukraine's suggestion to deprive Russia of its veto power in the UN Security Council.

During a recent speech at the UN General Assembly in New York on September 20, Ukrainian President Volodymyr Zelensky had urged his audience to circumvent Russia's veto power at the UN.

Baerbock told Germany's ARD TV channel later the same day that "we don't support this, and I have made it clear to my Ukrainian partners time and again."



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