



Coalition agreement – nudges for capital markets

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The incoming coalition government is aiming for a rebound of the German economy and stronger competitiveness following years of anaemic growth. To this end, it envisages several stimulating measures such as lowering energy prices and facilitating depreciation.¹ Capital market reform is not the main focus – but some aspects of the coalition treaty, if implemented, could have a meaningful impact on capital markets. In this note, we take a more detailed look.

We see the following key elements:

- i. boosting the financing of young, innovative companies through risk capital markets,
- ii. improving funding options for long-term investments in infrastructure and renewable energy, and
- iii. introducing a funded component in the pension system for the youngest generation, invested in capital markets and paid for with public money.

Beyond that, there are a few noteworthy commitments that signal more pragmatism than grand ambition: the new government wants to strengthen the EU's "Savings and Investments Union"² as well as Germany as a financial centre. Another positive sign is the intention to refrain from German "gold-plating" of EU financial market regulation. The coalition treaty, however, does not provide much impetus for areas like stock markets, private pension savings of the working-age population, or the EU Banking Union.

Crucially, a lot will depend on concrete implementation and on timing. Many details have yet to be worked out and are subject to the political priorities of the parties in charge of the respective reforms. The sooner the reforms are addressed, the more likely it is that they will be adopted, given the government's focus may shift over time towards other matters, as the previous "traffic-light coalition" has shown. Hence, there remains considerable uncertainty for the time being.

¹ See also Muehlberger, Marion, et al. (2025). Our quick take on the coalition treaty. Deutsche Bank Research. Focus Germany. April 9.

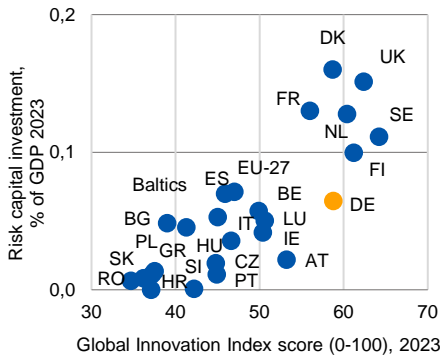
² For an overview, see Schildbach, Jan, and Ursula Walther (2025). Savings & Investments Union: Boosting European capital markets. Deutsche Bank Research. Focus Germany. April 15.



Coalition agreement – nudges for capital markets

1) Closing the innovation financing gap with the creation of a EUR 100 bn “Deutschlandfonds”

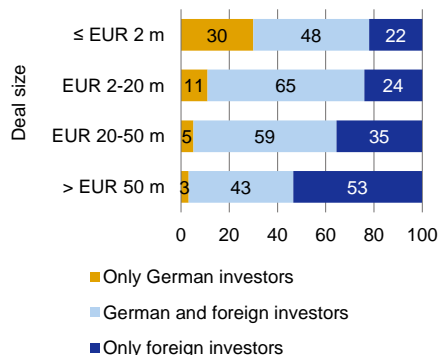
German risk capital market – small compared to the country’s innovative strength 1



Sources: WIPO, OECD, Invest Europe, EBAN, IMF, Deutsche Bank Research

The larger the VC deal, the larger the share of foreign investors 2

VC deals in Germany by origin of investor, in % (avg. 2021-23)



Source: KfW, based on data from Dealroom.co

The incoming government aims to strengthen the financing environment for startup and scaleup companies, where Germany is lagging behind.³ The most important element could be the creation of a EUR 100 bn “Deutschlandfonds” dedicated to closing the gap in growth and innovation financing (see Chart 1 and Chart 2). The fund will act as a fund-of-funds and will ultimately support the financing of innovative scaleup and SME companies in Germany. The federal government will provide EUR 10 bn in equity, with the aim of increasing the fund volume tenfold through private investments. The details and timeline are yet to be worked out.

Second, additional financing for startups may come from the WIN (Growth and Innovation Capital for Germany) initiative, whose volume the new government wants to double to EUR 25 bn, using public guarantees. The initiative was launched in September 2024, with several German banks and insurance companies pledging to invest up to EUR 12 bn in venture capital by 2030. Furthermore, another public fund for startups, the “Zukunftsfonds”, is to be made permanent beyond 2030. The fund is EUR 12.5 bn in size and provides means for VC funds and startup companies, with a focus on financing of scaleup firms. Overall, the larger and longer-term public funding of venture capital could indeed help to attract additional private resources and particularly allow for larger funding rounds – closing an important gap in the German innovation system.

Third, the new government aims to create another EUR 10 bn fund for debt and equity investments to support the digital and green transformation of large SMEs that do not have full access to the capital market. The funding is meant to come from the EUR 2 bn legacy funds of the national bank levy, which is to be leveraged with private capital. But given this procedure is still largely unclear and the overall size is limited, the impact of this fund may be smaller than that of the other funds listed above.

Beyond financing, the coalition agreement contains a range of measures to strengthen the German startup ecosystem in general, including streamlined and faster processes for founding companies (within 24 hours as a target), creation of regulatory sandboxes, and bolstering employee equity participation. Crucially, though, improving exit markets for private investors in successful growth companies does not appear to be in focus.

2) Unlocking private investments in infrastructure and renewable energy

To put infrastructure investments on a stable footing, the incoming government also wants to create a sound legal framework for private investments, in addition to the already adopted EUR 500 bn off-budget fund for infrastructure.⁴ The aim is to facilitate long-term fund investments in infrastructure and renewable energies. While private funds could help to partly cover the large infrastructure funding needs, Germany does not attract private investment to the same extent as other locations. 80% of German funds primarily invest in infrastructure abroad, according to a survey of the trade association Bundesverband

³ See Walther, Ursula (2024). Strong risk capital markets. Vital for unlocking green & digital innovations. January 29.

⁴ For more, see Winkler, Robin, et al. (2025). Zahlenwende: revising our German macro forecasts. Deutsche Bank Research. Focus Germany. March 21.



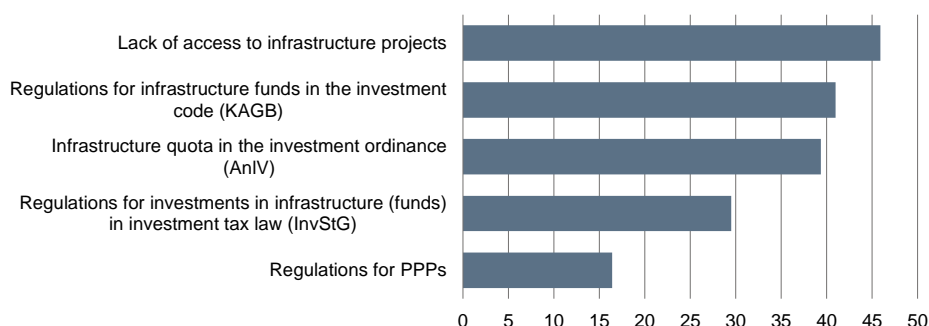
Coalition agreement – nudges for capital markets

Alternative Investments (BAI).⁵ Among other factors, this is due to the predominant role of the state in the provision of infrastructure, with Germans being accustomed to receiving many services for “free” – at face value. But it is also due to regulatory and tax requirements (Chart 3). The new government is yet to work out the details of its ambition to ease these requirements. This might include elements of the “Future Financing Act II”, which would have significantly lowered the hurdles for funds to invest in infrastructure and renewable energies, but which the previous government failed to pass. The envisaged simplification of planning and approval procedures could further help to unlock private investments.

Biggest challenges for private investment in infrastructure in Germany

3

% of German institutional investors surveyed



Sources: BAI Investor Survey 2023, Deutsche Bank Research

At the EU level, the prospective new coalition targets reforming the Solvency II regulation to lower capital requirements for insurance companies to invest in infrastructure projects and venture capital. The proposed removal of *national* capital buffers could also facilitate investments by institutional investors.

3) Guiding young people to capital markets through a “Frühstartrente”

The planned “Frühstartrente” (early start pension) could lay the foundation for capital market-based retirement savings for future generations. Starting from 2026, every child between 6 and 18 would receive EUR 10/month in an individual, capital-funded, and privately managed retirement savings account. The fiscal cost would amount to approximately EUR 1 bn per year (this compares to EUR 12 bn p.a. which was meant to be invested in “generational capital”, a different – and now defunct – market-based pension scheme proposal of the traffic-light coalition).⁶ From the age of 18, further private contributions are optional (up to an annual maximum), and capital gains would remain tax-free during the savings period, as with private retirement accounts in many other countries. The funds can be withdrawn only when standard retirement age is reached. The scheme’s success will largely depend on the design, which is yet to be worked out. The lessons of the “Riester pension” will likely inform the structuring of this instrument (no capital guarantees, simple structure, low cost).

In an optimistic scenario, this could introduce youth to the benefits of private retirement savings and capital markets, and in the long run strengthen

⁵ Bundesverband Alternative Investments (2024). Between Short-term Headwinds and Strong Long-term Tailwinds: Infrastructure 2024 - Focus on Germany. April 30.

⁶ ARD-Tagesschau (2025). Wie die Frühstart-Rente funktionieren soll. April 19.



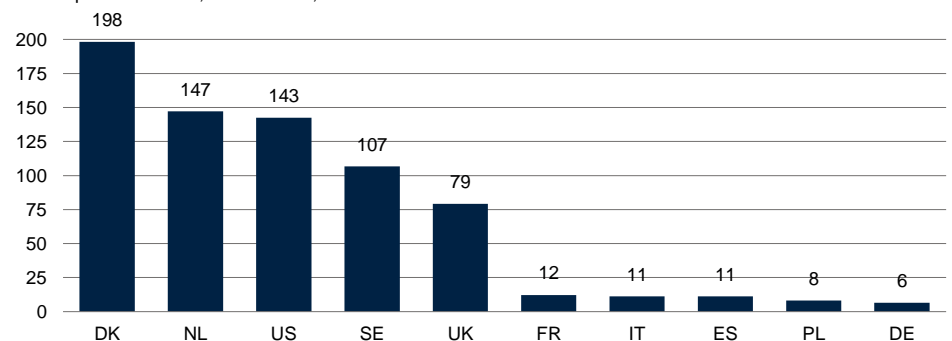
Coalition agreement – nudges for capital markets

Germany’s comparatively low private pension assets (Chart 4). A particular advantage would be that every individual is supposed to receive the funds quasi automatically (no opt-out or opt-in mechanism) and would therefore have a (small) portfolio of financial assets to build on with private means. They would gain experience and get used to the usually strong stock market returns over the longer term, which should also reduce the still widespread bias against such “risky investments”. In the best case, over time the majority of the German population would start to invest in capital markets, potentially reducing the pressure on the public pay-as-you-go pension system that currently dominates. Low-income households are set to incur the largest benefit as they are less likely to own securities or mutual fund shares today.

Germany has very low private pension savings compared to other advanced economies

4

Private pension assets, in % of GDP, 2023



Sources: OECD, Deutsche Bank Research

Pension funds serve as important capital pools that provide large volumes of long-term investment capital. Thus, strengthening the private retirement pillar could also help to deepen capital markets, which have a key role in channelling funds into productive investments and financing the green and digital transition.⁷ However, the “Frühstartrente” remains limited to the youngest generation and modest in scale. Therefore, more far-reaching reforms would be required if the public pension system really were to be complemented with a significant funded component.

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⁷ See Schildbach and Walther (2025).



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