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## Economic Development in Germany week 02/25

# Weekly report

## What was important in the German economy last week?

**A service from Berlin Kommunikation and BWA, Federal Association for Economic Development and Foreign Trade —— Global Economic Network**

### "Economic Crisis – Is There Hope for 2025?“

The German economy has been stagnating for two years, and experts predict minimal growth in 2025. While the German Economic Institute forecasts a mere 0.1% increase, the OECD projects 0.7%. This leaves Germany economically at the bottom among industrialized nations, still referred to as the "sick man of Europe." Key reasons include global uncertainties such as trade conflicts, the war in Ukraine, and energy policy challenges. However, there is hope: A new government after the February elections could stimulate growth through structural reforms and investment packages. Rising wages may also boost consumer spending, although households remain cautious due to concerns about the future. Experts see potential in exports despite challenges in key markets like China and the U.S. The main hurdles remain geopolitical tensions and economic policy uncertainties. Nonetheless, technological advancements and stronger international cooperation could pave the way for recovery.

### ARD-DeutschlandTrend: Migration and Economy as Key Issues

**With seven weeks left until the federal election, migration is emerging as a key political issue in Germany, according to the latest ARD-DeutschlandTrend survey. The economy follows closely as the second-most important concern.**

**However, the much-anticipated "comeback" by the Social Democratic Party (SPD) has yet to materialize.**

On Saturday, the SPD is set to officially nominate Olaf Scholz as its candidate for chancellor. Scholz, the incumbent, has promised a "comeback" before the February 23 election after more than three years in office that saw the party's support decline significantly from its 2021 high of 25.7%. While the latest poll shows a slight increase for the SPD at 15% (+1 compared to mid-December), they still trail far behind the CDU/CSU, which has fallen to 31% (-2). The far-right AfD holds second place with 20% (+1), its highest result in a year. The Greens remain at 14%, while three smaller parties—the Wagenknecht Alliance (BSW) at 5%, and both the FDP and Left Party at 4%—are fighting to clear the parliamentary threshold. Other parties collectively account for 7%.

**Bleak Prospects for the SPD Compared to 2021**

In 2021, the SPD also struggled early in the polls but gained momentum in the final months. By early September, they surged to 25%, surpassing a weakened CDU/CSU. However, the current political landscape is less favorable for the SPD. While Scholz once enjoyed broad popularity, now only one in five voters is satisfied with his performance. None of the major candidates has inspired much enthusiasm—Robert Habeck of the Greens leads with just 28% approval, ahead of Friedrich Merz (CDU/CSU), whose rating has dropped from 30% to 25%.
Migration and the Economy Dominate the Agenda
The CDU/CSU benefits from a focus on issues where they are seen as more competent. Currently, 37% of respondents consider migration and asylum policies among the top issues requiring political action, a significant 14-point increase in just one month. The economy follows closely at 34%. Other concerns, such as foreign policy (14%), environmental issues (13%), and social inequality (11%), trail behind.

Recent events, such as the tragic Christmas market attack in Magdeburg that left six dead and nearly 300 injured, have heightened tensions. While authorities continue to investigate the attack's motives, the public debate on migration has grown more heated.

**Proposals for Economic Revival**

To address economic concerns, parties have proposed various measures. The CDU/CSU and FDP have called for overtime bonuses to be exempt from taxes—a measure supported by 78%

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of respondents. Meanwhile, 71% favor state incentives for companies investing in Germany, a policy championed by the SPD and Greens. A minimum wage increase to €15 is backed by 67%, while 53% support tax cuts for businesses. The AfD's proposal to abolish the $CO_2$ tax finds support from 48% of respondents, though 39% oppose it. The idea of a state subsidy for domestically produced electric vehicles divides opinion, with 44% in favor and 45% opposed. Additionally, only 28% support lifting sanctions against Russia, as proposed by the AfD, while 61% want the sanctions to remain.

**Public Sentiment and Social Issues**

The survey highlights growing social discontent. In 2018, 66% of respondents felt they were treated fairly in society; today, that number has dropped to 56%. Meanwhile, 24% now feel disadvantaged, up from 16% in 2018. Social cohesion remains strong within families and communities but is viewed more negatively in public spaces such as shops and streets. The widening gap between rich and poor (77%) and cultural differences (63%) are seen as major challenges.

In this tense pre-election period, voters remain focused on key concerns of migration and economic stability. The SPD faces an uphill battle to regain support as Germany's political landscape continues to shift.

## Explaining the Recent Economic Situation: A Mixed Picture for Germany

In November, Germany experienced an unexpected rise in production and exports, providing a brief glimmer of hope amid ongoing economic struggles. The industrial, construction, and energy sectors increased output by 1.5% compared to the previous month. Likewise, exports saw a significant rise of 2.1%, defying expectations after previous declines. However, experts warn that these positive numbers are more of a temporary rebound rather than a sign of a long-term recovery.

**Export Fluctuations and the Bigger Picture**

The notable rise in exports in November, especially to the U.S. (+14.5%), comes after a sharp 14% drop in October. Alexander Krüger, Chief Economist at Hauck Aufhäuser Lampe, explains that this increase is merely a corrective upswing. As a result, the fourth quarter of 2024 is still expected to close with negative growth in overall export performance.

### Industrial Output Remains a Concern

Despite the November uptick, the overall industrial production in 2024 is estimated to have fallen by 4.5%. According to the Kiel Institute for the World Economy (IfW), industrial output remains more than 10% below its 2018 peak. The automotive sector, in particular, continues to face a crisis. A recent report from the Munich-based ifo Institute indicates that the business climate among car manufacturers remains bleak due to a lack of incoming orders.

### Economic Challenges in the Winter Months

Jörg Krämer, Chief Economist at Commerzbank, predicts that the winter season will remain tough for the German economy. The return of Donald Trump as U.S. President on January 20 is likely to bring additional tariffs, further straining German exports. Volker Treier, Head of Foreign Trade at the German Chamber of Industry and Commerce (DIHK), warns that the upcoming months may bring "unpleasant" conditions for exporters.

### Concerns Among Family Businesses

Family-owned businesses in Germany are bracing for a challenging 2025. According to a recent survey, only 31% of these companies expect growth. Alarmingly, 28% of them plan to reduce their workforce, compared to just 19% intending to hire—a worrying trend for the labor market.

### A Bright Spot: The Digital Economy

In contrast to the broader economic downturn, the IT and telecommunications sector continues to thrive. The industry projects a 4.6% increase in revenue for 2025, with 20,000 new jobs expected—twice the number added last year. The software sector, particularly artificial intelligence (AI), is a key growth driver, as reported by the Digital Association Bitkom.

In summary, while certain sectors show resilience, the overall outlook for the German economy remains bleak, with ongoing uncertainties in global trade, energy policy, and geopolitical tensions. However, advancements in digital technology offer a beacon of hope for future growth.

## Inflation Rises Sharply in December

At the end of the year, inflation in Germany increased for the third consecutive month—and more significantly than expected. Consumer prices in December 2024 were 2.6% higher than in the same month the previous year. The Federal Statistical Office released its preliminary inflation estimate today, surprising economists who had anticipated a more moderate rise. On an annual basis, prices in 2024 rose by 2.2%. In comparison, the inflation rate was 5.9% in 2023, following a historic peak of 6.9% in 2022 when energy prices surged after Russia's invasion of Ukraine.

### Energy Prices Decline, but Food and Services Become More Expensive

The inflation increase in December marks the third monthly rise in a row. After falling for two months, the annual inflation rate climbed to 2.0% in October and reached 2.2% in November, surpassing the 2% threshold for the first time since July 2024. However, inflation remains well below the record high of 8.8% seen in autumn 2022.
Energy prices continued to decline in December, dropping by 1.7% compared to the previous year, though this decrease was smaller than the 3.7% drop in November. Meanwhile, food prices rose by 2.0%, up from 1.8% the previous month, while service prices increased by 4.1%, slightly higher than the 4.0% in November.

### Inflation Outlook for 2025

Economists expect Germany's inflation rate to remain above 2% in the coming year. Factors such as the increase in the $CO_2$ tax—from €45 to €55 per ton at the beginning of 2025—are likely to push consumer prices higher. Additionally, the price increase of the Germany-wide transit pass ("Deutschlandticket") is expected to contribute to inflation.
For 2025 as a whole, economists predict an average inflation rate slightly above 2%, similar to 2024. Thomas Gitzel, Chief Economist at VP Bank, highlights rising wage demands as a potential risk, particularly in the service sector. "The end of the inflation compensation bonus is expected to be offset by higher wage growth, according to union strategies," he explained.

### Impact on the Key Interest Rate

The eurozone's inflation rate, set to be published tomorrow, will play a crucial role in the European Central Bank's (ECB) next

interest rate decision. In 2024, the ECB lowered its key interest rate four times. The deposit rate, which dictates how much banks earn by storing money with the central bank, currently stands at 3.00%.
Market traders expect the ECB to cut rates by over 100 basis points throughout 2025. A lower key interest rate typically results in declining interest rates for fixed-term and savings accounts, which is unfavorable for savers. However, cheaper loans may boost consumer spending and stimulate economic growth.

## Undeclared Work in Germany: Over 3.3 Million People Working Illegally

In 2024, at least 3.3 million people in Germany engaged in undeclared work. Despite this, Germany performs relatively well compared to other nations. Many countries, including industrialized ones, report much larger shadow economies in relation to their GDP.

### What is Undeclared Work?

Undeclared work, a key component of the shadow economy, is defined as the evasion of tax, social security contributions, and regulatory obligations. It remains a significant issue for Germany's economy, labor market, and fiscal policies. Recent survey findings provide new insights into the extent of undeclared work in the country, painting a surprisingly clear picture of its prevalence.

### Measuring the Scale of Undeclared Work: The Known and Unknown
### Known Figures („Hellfeld")

The Financial Control of Undeclared Work (FKS), as mandated by the Act to Combat Undeclared Work (SchwarzArbG), monitors employers and prosecutes illegal employment. In 2023, the FKS conducted 42,631 inspections, primarily in high-risk sectors like construction and hospitality, resulting in over 100,000 criminal cases and nearly 50,000 administrative offenses. The estimated damage to the state amounted to €615 million, with an even higher unreported figure.

### Unknown Figures („Dunkelfeld")

The shadow economy is estimated using various macroeconomic models based on aggregated data. Undeclared work constitutes about two-thirds of the shadow economy, which accounts for approximately 10.3% of GDP between 2014 and 2024—a decline

of 4 percentage points compared to the previous decade, partly attributed to improved economic conditions.
In the OECD comparison, Germany ranks in the middle, with the U.S. (5.8%), Switzerland (6.2%), and Japan (8.7%) having smaller shadow economies, while Greece (21.4%), Italy (20.4%), and Spain and Portugal (approximately 17%) show significantly higher figures.

**Company and Population Surveys**

Business surveys estimate that undeclared work costs companies an average of 5% of their revenue, amounting to €300 billion annually. Representative population surveys provide further insights: in the 2015 Socio-Economic Panel (SOEP), 20.7% of respondents knew someone engaged in undeclared work, and the 2019 Eurobarometer survey showed 28% with similar knowledge. However, only 3% admitted to engaging in such work themselves, indicating a discrepancy often observed in direct vs. indirect questioning.

**Surveys from 2022 and 2023**

Surveys among employed individuals in 2022 and 2023 used techniques such as the nominative technique (NT) to reduce socially desirable responses. Around 70% of respondents reported knowing no one engaged in undeclared work, while nearly 20% knew at least one person. Estimates suggest that 8 to 10 million people in Germany (aged 15 to 74) might engage in undeclared work based on indirect questioning methods.

A 2024 survey by the German Economic Institute (IW) showed similar trends: 11.4% knew someone working illegally, and 17.8% knew multiple people, totaling 29% who reported knowledge of undeclared work. When asked if they themselves had engaged in undeclared work in the past 12 months, 5.4% of respondents—approximately 3.3 million people—admitted to doing so. Indirect methods estimate the figure to be as high as 10 million after accounting for duplicate counts.

Men (7.5%) are more likely to work undeclared jobs than women (3.5%), and young adults (18–34 years) engage in such work twice as often (11%) as other age groups (3–5%).

**Conclusion**

Undeclared work has been a persistent issue for decades, causing significant economic and fiscal damage. In November 2024, the German government proposed a bill aimed at modernizing and digitizing the fight against undeclared work. Strengthening the FKS may improve control over social benefit fraud and illegal employment in sectors such as construction and hospitality. However, better enforcement alone may not curb side jobs or unregistered household help. Addressing the root causes of undeclared work, such as the large gap between gross and net wages due to rising social contributions and high tax rates, remains crucial.

## No More Salary on the First Sick Day?

In Germany, employees continue to receive their salary from the first day of sick leave. However, due to the high number of sick days, Allianz CEO Oliver Bäte has called for the introduction of a waiting period without pay—sparking a heated debate.
Bäte proposed in a *Handelsblatt* interview that employers should stop paying wages on the first day of sick leave, effectively reintroducing a "waiting day" that was abolished in the 1970s. He cited countries like Sweden, Spain, and Greece as examples.

**€40 Billion in Annual Savings?**

Bäte argues that the costs for the first sick day should be borne by employees, which would reduce the financial burden on employers. In contrast to Germany, where salaries are paid from day one of sick leave, many other countries have a waiting period. According to Bäte, the average employee in Germany is absent for 20 days per year due to illness, compared to the EU average of 8 days. Employers reportedly spend €77 billion annually on wages for sick employees, with an additional €19 billion covered by health insurers—amounting to 6% of total social security spending. Bäte estimates that his proposal could save €40 billion annually.
However, official statistics paint a slightly different picture: The Federal Statistical Office reports an average of 15.1 sick days in 2023. Health insurers such as DAK-Gesundheit even report higher numbers, with an average of 20 days of absence per insured person in 2023, while Techniker Krankenkasse records an average of 17.7 days.

**Union Criticism: "Promoting Presenteeism“**

Trade unions strongly criticized Bäte’s suggestion. The German Trade Union Confederation (DGB) called the idea "profoundly unjust" and warned of increased "presenteeism"—employees coming to work despite being ill. DGB board member Anja Piel stated, "Even before the pandemic, 70% of employees reported going to work sick at least once a year, with an average of nearly nine days per year despite illness." Presenteeism not only harms the health of employees but can also lead to workplace accidents and infections, incurring additional costs.
Piel argued that current absenteeism rates do not justify drastic measures, citing OECD data showing no alarming increase in sick leave in Germany compared to other EU countries. IG Metall described Bäte’s proposal as "outrageous," accusing him of undermining social security and promoting untreated illnesses. Board member Hans-Jürgen Urban said, "Germany's economy won't recover by making employees sicker but rather through improved working conditions.“

**Calls for Better Management, Not Punishments**

The proposal also faced criticism from the private sector. Tobias Stüber, CEO of Flibco, a travel startup, dismissed the idea as harmful, stating, "Employees won’t trust a company that punishes them for getting sick." He advocated for better corporate policies and leadership that listens to its workforce.

However, some experts supported Bäte's stance. Economist Bernd Raffelhüschen described it as a "sensible proposal" and suggested extending the unpaid waiting period to three days. Mercedes CEO Ola Källenius also voiced support, pointing out that higher absenteeism in Germany compared to other countries has economic consequences.

**Mixed Reactions from Politicians**

The political response to the proposal was divided. Sepp Müller, deputy chairman of the CDU/CSU parliamentary group, said that while waiting days are not part of the party's platform, the idea warrants discussion. "Our social systems are under increasing strain, so we shouldn’t dismiss new ideas outright." However, health policy spokesperson Tino Sorge (CDU) opposed the idea, arguing that "very few people call in sick for fun." He proposed a summit on sick leave to bring stakeholders together to address the issue.

The CDU's labor union leader Dennis Radtke called Bäte's proposal "completely unacceptable" and criticized it as promoting a culture of distrust toward employees.

The debate over waiting days highlights the tension between reducing costs for employers and safeguarding employee well-being. With unions warning of negative health impacts and some economists advocating for tighter regulations, the discussion remains polarized. Whether or not the government adopts such measures, the topic of absenteeism will likely remain central in the broader conversation about labor and social policies in Germany.

## "The Start of a New Government is Always an Opportunity“

As Donald Trump assumes office in the U.S. and Germany prepares for elections, 2025 is poised to bring significant political changes. In an interview with *tagesschau24*, Clemens Fuest, head of the ifo Institute, shared his thoughts on how Germany can achieve an economic turnaround.

**tagesschau24:** This year will bring several changes. A new German government will be elected in February, and Donald Trump will take office as U.S. President in just a few weeks. Do you see potential economic opportunities for Germany in this situation?

**Clemens Fuest:** I believe that the start of a new government always presents an opportunity. However, it is crucial that the new administration implements a clear economic policy shift. If they succeed, Germany's economic outlook could improve. The major concern, though, is what Donald Trump will do. If a trade war develops between Europe and the U.S., forecasts could turn highly pessimistic, with some even predicting negative economic growth. Such a scenario would hit Germany at an already weak economic point. Therefore, the outlook for this year remains mixed.

**tagesschau24:** What steps should the next German government take to achieve an economic course correction?

**Fuest:** If we want more economic growth, we need to cut back on redistribution efforts. A large portion of the federal budget currently goes toward subsidies for the pension system. We may need to reduce or even eliminate that support. Additionally, we will have to make sacrifices in other areas—such as scaling back ambitious CO2 reduction targets or redistributive policies. Ultimately, it is up to the politicians to decide how to proceed.

**tagesschau24:** Should the new government implement these measures quickly?
**Fuest:** In this case, thoroughness is more important than speed. We don't need hasty measures. There have been too many short-term, reactionary proposals, such as reducing VAT or subsidies for electric vehicles. These measures often provide only temporary relief—or even cause problems before they are implemented—by encouraging people to delay purchases. What we need now is a stable government and a coherent economic strategy that is carried out without endless debates, which has often been an issue in the past.

**tagesschau24:** Many companies announced layoffs last year, which created uncertainty for workers. Do you expect further job cuts in 2025?
**Fuest:** Unfortunately, yes. Industries such as automotive, chemicals, and metalworking remain under significant pressure, and more job cuts may be announced. However, there is a positive side—other sectors, such as healthcare, are seeing job growth, which can offset some of the losses.

**tagesschau24:** Do you expect the unemployment rate in Germany to rise?
**Fuest:** When large employers lay off workers, it can cause local disruptions in the labor market. However, I do not expect a sharp increase in the overall unemployment rate. Due to demographic changes, many people are retiring, and there is already a labor shortage in several sectors.

**tagesschau24:** Job losses often lead to financial uncertainty for individuals, causing them to cut back on spending. Doesn't this further weaken the German economy?
**Fuest:** It's true that people are concerned about their financial future and are spending less. However, layoffs and workforce reallocations are, in some industries, part of the normal economic restructuring process. There's no need to panic. If layoffs have significant regional impacts, the government has tools to provide support. Moreover, many companies that have to lay off employees are cooperating with others that are hiring. There is a lot of effort within the economy to help workers find new jobs. I don't believe that layoffs in some industrial sectors will drag down the entire economy.

**tagesschau24:** Many industries, such as retail and construction, emphasize the importance of consumer confidence in their future earnings and job security. Is there anything that can give people more optimism this year?

**Fuest:** Yes, we saw real wage increases of nearly 3% last year, and we expect wage growth of 4% to 5% on average this year, with slightly higher increases in the service sector. This should support strong consumer demand. However, it all comes down to confidence. If people believe they will continue to earn well and keep their jobs, they will spend more. If not, they will save. That's why we need greater trust, which can only be achieved through a consistent economic policy strategy focused on growth.
Interview by Anne-Catherine Beck, ARD Financial Editorial Team.
The interview has been edited for clarity and brevity.

## Despite Economic Crisis: More Start-Ups Founded in Germany

Despite the sluggish economy, the number of start-ups in Germany rose significantly last year. In addition to major cities like Berlin, smaller university towns are also becoming increasingly important as start-up hubs.

### Strong Growth Despite Financial Challenges

Despite difficult funding conditions for entrepreneurs, 2,766 growth-oriented companies were founded in Germany in 2024—a 11% increase compared to the previous year's 2,498 start-ups, according to data from the German Start-up Association.
"2024 was the second-strongest year for start-up creation, only surpassed by the peak year during the COVID-19 pandemic in 2021," the association reported.

### AI, Education, and Gaming Drive Growth

The software sector saw the highest number of new companies, with 618 start-ups—representing a 33% year-on-year increase. This reflects the ongoing boom in artificial intelligence.

Significant growth was also seen in the education and gaming sectors, which initially slowed after a pandemic-fueled surge but have now rebounded.
"Times of crisis are also times of innovation. The latest numbers send a strong signal for Germany as a business location," said Helmut Schönenberger, Deputy Chairman of the Start-up

Association. According to the association, start-up numbers have recovered in nearly all regions following previous declines.

**Challenges for Food and E-Commerce**

However, the food and e-commerce sectors faced difficulties, with a notable increase in insolvencies. The number of bankruptcies has risen alongside the number of new start-ups, which is unsurprising given the current economic climate. Felix Engelmann from the platform *Startupdetector* noted that the industries hit hardest are those where consumer spending has dropped or market potential was overestimated.

German start-ups had benefited from a surge in digitalization and low interest rates during the pandemic, leading to a boom in services like delivery platforms. However, as inflation and interest rates rose, investor activity slowed, with investments in start-ups plummeting in 2023, forcing many companies to lay off staff. Since 2021, the association has observed an increasing number of insolvencies.

There are signs of recovery, however, as reports from KfW Bank and EY indicate improved funding prospects for start-ups in 2025.

**University Cities on the Rise**

While Berlin (498 start-ups), Munich (203), and Hamburg (161) remained the top start-up hubs, other cities have also gained prominence. Measured by start-ups per 100,000 residents, Heidelberg led with 13.5, surpassing both Munich and Berlin. Aachen and Darmstadt also made it into the top five, reflecting the impact of universities and research institutions in fostering local innovation ecosystems.

Heidelberg, in particular, has seen numerous start-ups emerge from its university network in recent years, according to the report by *Startupdetector*, which analyzed commercial register data.

## Study on Germany as a Business Location: "The Foundation of the Economy is More Innovative Than Often Perceived“

According to economists from the union-affiliated IMK Institute, the German economy is stronger than its reputation suggests. A recent study by the Macroeconomic Institute of the Hans Böckler Foundation (IMK) argues that Germany’s economic stagnation—GDP has barely grown since 2019—is due more to global factors than domestic issues.
The study highlights external challenges such as the power struggle between the U.S. and China and the energy price shock following the halt in Russian gas supplies as more significant than domestic factors such as labor costs or social welfare spending. "Economic policy measures by the new German government must take this into account if they aim to achieve a successful economic turnaround," the report states.

### Key Recommendations: Investment and Industry Support

The IMK economists propose three key measures: an investment initiative to improve infrastructure, lower electricity prices, and an EU-coordinated industrial policy to support future-oriented and key sectors during the transformation. "Both Germany and Europe must embrace industrial policy when the world's leading nations are pursuing it," the report asserts.

### Criticism of ECB’s Interest Rate Policy

The IMK criticizes the ongoing domestic debate that blames issues like high social contributions or welfare disincentives, arguing that it fails to address the real challenge posed by aggressive industrial policies in the U.S. and China. Delaying action could worsen the situation, and "misguided pressure to cut wages and social security could further weaken domestic demand, which serves as an important stabilizing factor."
The IMK also criticizes the European Central Bank's (ECB) slow approach to lowering interest rates. "In a phase where inflation risks have subsided, high interest rates are holding back the German economy," the report states.

### Strong Historical Performance

The IMK’s analysis spans the two decades leading up to the COVID-19 pandemic, showing that Germany’s GDP per capita grew by around 25% between 2000 and 2019—similar to the U.S. and noticeably higher than in other Western European nations like the UK, France, and the Netherlands.

**Warnings Against "Agenda 2010 2.0“**

The IMK strongly opposes conservative and neoliberal proposals for a new reform agenda similar to "Agenda 2010." IMK Director Sebastian Dullien argues that such reforms would do more harm than good, stating: "We are in a new economic reality, and clinging to outdated concepts like the debt brake only hampers essential investments, growth, and modernization."
Despite concerns over bureaucracy and infrastructure issues, Dullien emphasizes that the foundation of Germany's economy remains solid and innovative. According to a recent U.S. ranking, Germany ranked first among 89 countries for entrepreneurship and seventh for quality of life, behind Scandinavian nations, Canada, and Switzerland.

Additionally, Germany ranked third worldwide in 2024 for science and technology clusters, trailing only China and the U.S., according to the Vienna-based WIPO Institute.
The IMK stresses that Germany’s low public debt, the lowest among G7 nations, provides ample room for necessary investments to secure long-term growth and competitiveness.

## Background Analysis

### The German Sick Pay System in Comparison to Other European Countries

Germany’s *Lohnfortzahlung im Krankheitsfall* (continued salary payment during illness) is a cornerstone of the country’s social security system, designed to provide employees with financial stability during periods of illness. The system ensures that employees who are unable to work due to illness receive their full salary for a limited period, creating a sense of security and allowing them to focus on recovery without immediate financial concerns.

In Germany, employees are entitled to their full salary for up to **six weeks** (42 calendar days) per illness, provided they have been employed with the same employer for at least **four consecutive weeks**. This protection applies to both full-time and part-time workers, regardless of whether their contract is permanent or temporary. After this six-week period, the responsibility shifts to the statutory health insurance (*Krankenkasse*), which pays *Krankengeld* (sick pay). This amounts to **70% of the employee's gross salary**, capped at **90% of their net salary**, and is provided for up to **78 weeks** within a three-year period for the same illness. To qualify, employees must notify their employer immediately and present a medical certificate (*Arbeitsunfähigkeitsbescheinigung*) if they are absent for more than three consecutive calendar days, although employers may request this earlier.

The German system is notable for its relatively long period of full salary coverage compared to many other European countries. In **France**, for example, employees typically face a waiting period of **three days** before they are eligible for sick pay, which is funded by social security and amounts to **50% of their salary**. Employers in France may supplement this to bring the coverage closer to full pay, depending on contractual agreements or collective bargaining.

In **the UK**, statutory sick pay (*SSP*) is considerably less generous. Employees are eligible after a **three-day waiting period**, but they only receive a fixed weekly amount (£109.40 as of 2024), regardless of their previous salary. The duration of SSP is limited to **28 weeks**, though employers often offer more favorable terms through private agreements.

In **Sweden**, employees receive **80% of their salary** from the first sick day, but this drops to **nothing for the first day** under the so-called "qualifying day" (*karensdag*), which was introduced to reduce short-term absenteeism. Employers are responsible for the first **14 days**, after which the government takes over.

Similarly, **Denmark** provides a generous sick pay scheme where employees receive their full salary for up to **30 days**, financed by the employer, after which the state offers financial support for an extended period. However, Denmark has fewer restrictions, making the process simpler for employees.

In contrast, **Spain** has stricter conditions: sick pay generally starts at **60% of the base salary** from the **fourth day** of absence and increases to **75%** after **21 days**. Employers often cover the first few days, depending on the nature of the contract.

The German system, though relatively protective, has faced criticism for being costly, particularly for employers during periods of high absenteeism. However, proponents argue that it serves as a crucial safety net that strengthens consumer confidence and reduces presenteeism—the phenomenon of employees working while sick, potentially prolonging illness or spreading infections to colleagues. The system is also considered a vital part of Germany's broader commitment to social welfare, ensuring that sick employees do not fall into financial distress during illness.

**The system's long-term sustainability is a subject of ongoing debate.** Recent discussions have highlighted the need to balance employer costs with social protection, especially in times of economic strain. Comparisons with other European countries underscore the diversity of approaches to sick pay, ranging from highly supportive systems like those in Denmark and Sweden to more minimal provisions in the UK.

Ultimately, Germany's *Lohnfortzahlung im Krankheitsfall* reflects a strong social commitment but must continue to evolve in response to changing economic and demographic pressures, while maintaining its core purpose of supporting workers in times of vulnerability.

**Historical Context: A Recurrent Debate**

The idea of a *Karenztag* is not new in Germany. A waiting day was part of the system until the early **1970s**, when it was abolished in favor of full pay from the first day of illness. This reform was part of a broader wave of social improvements aimed at strengthening workers' rights during the post-war economic boom. However, the economic crises of the **1980s and 1990s** reignited debates about reinstating the waiting day as a cost-cutting measure. In each case, the proposal was ultimately rejected due to strong public and political resistance, driven by fears that it would disproportionately impact low-income and vulnerable workers.

A significant attempt to reintroduce the waiting day occurred in the **early 2000s** during discussions surrounding "Agenda 2010," a set of labor market and welfare reforms introduced by Chancellor Gerhard Schröder's government. Although drastic changes were made to unemployment benefits and pensions, the idea of reinstating a waiting day for sick pay was once again dismissed amid concerns about weakening Germany’s social model.owth. However, Russwurm cautioned that these intentions must be matched with concrete actions for real impact.