GERMAN COUNCIL
of Economic Experts

PRESS RELEASE

# Productivity growth slowdown amid large differences between firms: Unlocking untapped potential

- Productivity differs considerably between firms, even within the same industry. In Germany, firms at the top of the productivity distribution are 3.5 to 5 times as productive as those at the bottom.
- The gaps are largest in knowledge-intensive industries, in industries that use digital technologies intensively, and where competition is weak.
- Faster development and diffusion of new technologies, greater labour mobility and lower barriers to entry and competition would help raise aggregate productivity.

**Berlin, 11.11.2026** – There are large productivity differences between firms – even within the same industry – both in Germany and Europe. These pronounced differences indicate a large, untapped potential for aggregate productivity gains. Innovative technologies and business models can boost productivity and pave the way for new and highly productive firms. Lagging firms can catch up more quickly by adopting technologies and knowledge of their more productive peers. At the same time, capital and labour needs to flow more freely towards the most productive firms, enabling them to further expand and gain market shares, while persistently unproductive firms downsize or even exit the market.

Productivity growth is key to long-term growth and living standards. In Germany and across Europe, however, it has slowed down markedly. “There is a large potential for productivity gains in Germany that remains untapped. Realising some of these gains requires greater leeway for innovation, startups and competition for the best ideas. At the same time, new technologies and efficient business practices must diffuse faster such that more firms can catch up to industry leaders,” explains Veronika Grimm, council member.

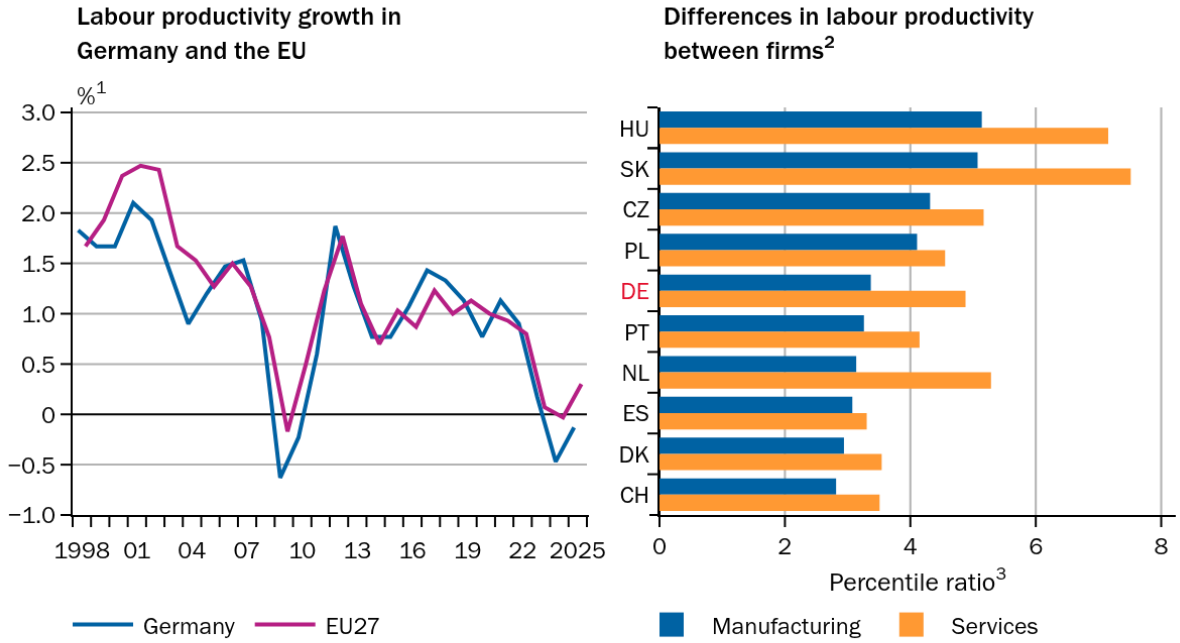
The extent of the productivity gap varies also across industries. In a German manufacturing industry, a leading firm is, on average, roughly 3.5 times more productive than one at the lower end of the scale. In a typical service industry, this gap widens to a factor of five. The most productive firms have a particularly large lead in industries that are highly digitised and exhibit little competition. Notably, among Germany’s 10 percent most productive firms many are found in industries such as wholesale trade, IT services and mechanical engineering.

Lagging firms catch up more rapidly by adopting superior technologies and practices from their more productive peers. This catching-up narrows the productivity gap between firms and boosts aggregate productivity. Productivity gains are also achieved when labour and capital shift towards more productive firms such that they can grow whilst less productive firms shrink or even exit the market. Furthermore, the entry and growth of new, more productive firms would help increase aggregate productivity.

To improve productivity across the German firm sector, the regulatory framework should become more reliable and investment-friendly. It should support developing, scaling, and adopting of new technologies. At the same time, fostering competition, lowering barriers to

firm entry, and enhancing labour mobility will be critical. These measures will help high-performing firms hire talent and expand further and will facilitate knowledge spillovers across firms.

**Productivity growth declining, large productivity differences**




1 – Three-year averages. 2 – In the period from 2010 to 2020. HU-Hungary, SK-Slovakia, CZ-Czechia, PL-Poland, DE-Germany, PT-Portugal, NL-Netherlands, ES-Spain, DK-Denmark, CH-Switzerland. 3 – Ratio of the 90th to the 10th percentile of labour productivity within 2-digit industries, according to the Statistical Classification of Economic Activities in the European Community (NACE Rev. 2).

Sources: Eurostat, IWH-CompNet, own calculations
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