FOCUS ON GERMANY

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Technology – Germany's *digitalwirtschaft*: revitalising start-ups and leadership in industrial AI

In Germany, the digital sector grew by 3.9 per cent in 2025, reaching €234.8 billion[1] in revenue. By 2030, annual growth of 9.7 per cent is expected, bringing the revenue to €389 billion[2] .

An industrial powerhouse and the undisputed leader in manufacturing engineering, Germany is Europe's third-largest start-up ecosystem, behind the United Kingdom and France, with a particularly strong position in industrial AI and B2B software. In the first half of 2026, 3,053 start-ups were founded[3] , 52 per cent more than in the previous half-year, a third of which focused on AI.

AI is revitalising the German start-up ecosystem after years of stagnation. The current transition towards agentic AI opens up a window of opportunity and will determine whether Germany catches up with its competitors or falls further behind. To achieve this, it has rolled out an active strategy aimed at becoming the frontrunner in industrial AI and the digital transformation of manufacturing processes.

From industrial giants to new AI stars

Germany has a major asset: **deep manufacturing expertise combined with a genuine capability for technological innovation.** German giants such as Siemens (€336.7 billion in turnover in 2025) and SAP (€42.6 billion in turnover in 2025) embody this excellence, dominating the global market for digital twin solutions, industrial IoT (*Internet of Things*) and enterprise software.

As the world's fourth-largest ICT market[4] , with a 4.1 per cent market share, the German market reached €170 billion in 2025[5] . This dynamic sector, driven by demand for software, *cloud computing*, cyber security and industrial automation, is a strategic pillar of Germany's digital industry. Germany ranks amongst the European countries most committed to R&D[6] , with massive investment rates exceeding 3 per cent of GDP[7] .

German companies excel in complex B2B solutions, where reliability and technical integration are paramount. Major German organisations, including the Volkswagen Group, Deutsche Telekom, Allianz and Mercedes-Benz, represent considerable IT purchasing power.

A new generation of champions rounds out this foundation: **Black Forest Labs** (€2.8 billion valuation, image generation), **Parloa** (€3 billion valuation, conversational AI), Quantum Systems (€160 million raised, autonomous drones), n8n (US$2.5 billion, AI automation), **DeepL** (€1.7 billion, neural translation), **Aleph Alpha** (valuation of €2.7 billion, sovereign LLMs) and **Helsing** (valuation of €16.5 billion, defence AI).

Between January and September 2026, German AI start-ups raised €5.7 billion. Germany is attracting strategic investors such as Nvidia, which is targeting high-potential sectors: industrial robotics

[1] Bitkom report: Digital economy remains a stabilising force: €245 billion in turnover in 2026
[2] Eco/Arthur D. Little AI Study
[3] Half-yearly report 'Next Generation – New Start-ups in Germany' by the Start-up Association and startupdetector
[4] Information and Communication Technologies
[5] Statista, ICT sector in Germany
[6] Research and Development
[7] Council of the EU / European Innovation Scoreboard 2025

Menna SALIM
menna.salim@credit-agricole-sa.fr

(Agile Robots), hospital software (Avelios Medical), audio generation (Mirelo) and satellites (Reflex Aerospace).

Sovereignty, European regulation and dependencies

The EU's drive for technological sovereignty is transforming the software industry. **Despite a modest market share in Europe – 14.71% of the EU market, compared with 5.41% of non-EU software markets – European software publishers are making their mark in specialised, regulatory-compliant vertical segments.**

The *AI Act* and other European regulations are driving up demand for solutions that incorporate digital sovereignty and encourage technology spending to remain within the EU. **However, only 27.2% of European IT spending remains within the EU, whilst 37% goes to US providers.** Hardware and *cloud services* remain largely dominated by non-European suppliers, a sign of persistent dependence.

This weakness is further exacerbated by a traditionally cautious entrepreneurial culture, high energy and labour costs, and less developed access to venture capital. Some founders therefore choose to launch their businesses abroad.

In Germany, regulatory fragmentation between the Länder[8] creates additional barriers to nationwide roll-out. However, the country benefits from a decentralised model where activity is not concentrated in Berlin, and where Munich, Hamburg, Stuttgart and the Ruhr region also contribute to the technological dynamism.

Turning industrial heritage into a digital advantage

Germany has the foundations for European leadership in industrial AI: manufacturing strength, major technology groups, sustained research and promising young start-ups. However, its dependence on foreign suppliers, relatively weak funding and risk aversion still limit its potential.

Aware of these challenges, in July 2026 the German government adopted *the* new *'start-up and scale-up* strategy', centred on 152 measures aimed at reducing bureaucracy, mobilising private capital and improving the entrepreneurial environment. Its success will depend on its ability to harmonise rules across the Länder, broaden access to venture capital and foster a culture more open to experimentation. Agent-based AI also offers a new window of opportunity: it is up to Germany to transform its industrial heritage into a sustainable software advantage.

[8] Plural of the German word '*Land*', referring to the federal states that make up the Federal Republic of Germany

Menna SALIM
menna.salim@credit-agricole-sa.fr

Crédit Agricole S.A. — Group Economic Research
12, place des États-Unis – 92127 Montrouge Cedex – France

Publishing director: Isabelle Job-Bazille
Editor-in-chief: Armelle Sarda
Documentation: Elisabeth Serreau – **Statistics:** Datalab ECO
Editing: Sophie Gaubert / Nathalie Marcet

Contact: *publication.eco@credit-agricole-sa.fr*

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