

GERMANY

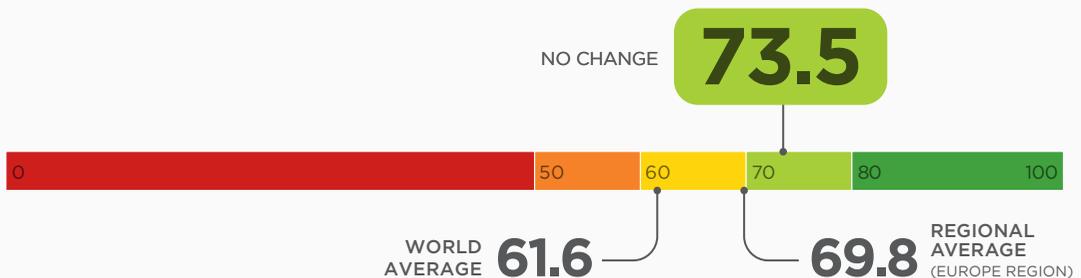
Germany's economic freedom score is 73.5, making its economy the 27th freest in the 2020 *Index*. Its overall score is unchanged from the 2019 *Index*, with an uptick in the **government integrity** score offset by a drop in **judicial effectiveness**. Germany is ranked 14th among 45 countries in the Europe region, and its overall score is well above the regional and world averages.

The German economy has resided in the lower half of the mostly free ranks for more than a decade. GDP growth has been expanding steadily although perhaps less than optimally.

Excessive government spending and costly labor regulations are the chief culprits slowing the expansion of economic freedom and the economy itself in Germany. Prospects for market-oriented reforms in either category are slim under the current administration. The government has doubled down on an expensive package of measures to address climate change that *The Economist* estimates will cost €54 billion by 2023.



ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +3.7

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
82.9 million

GDP (PPP):
\$4.4 trillion
1.5% growth in 2018
5-year compound annual growth 1.9%
\$52,559 per capita

UNEMPLOYMENT:
3.4%

INFLATION (CPI):
1.9%

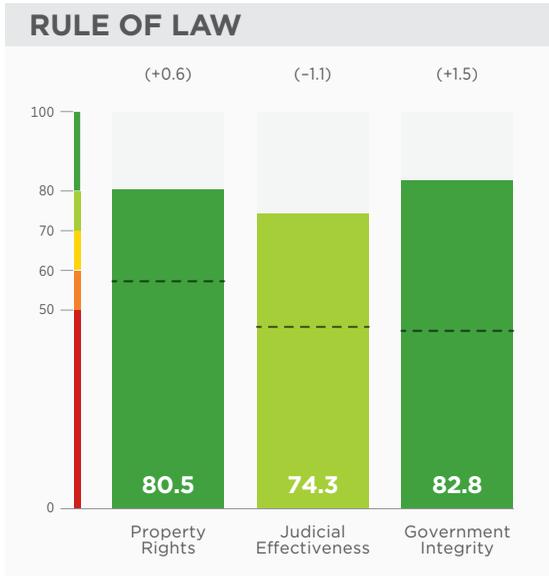
FDI INFLOW:
\$25.7 billion

PUBLIC DEBT:
59.8% of GDP

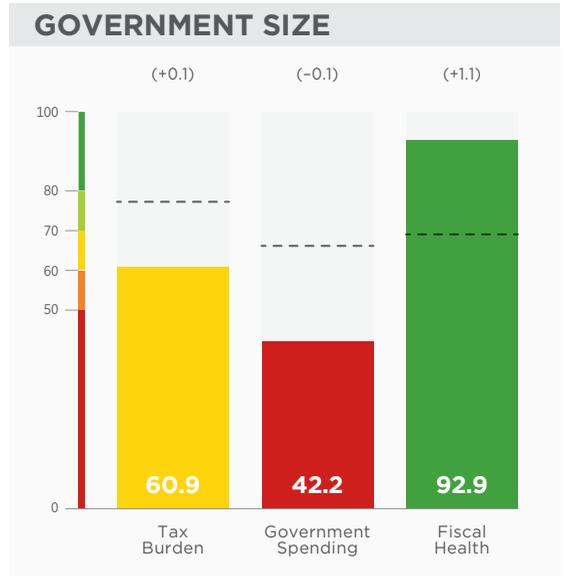
2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: Germany remains the European Union's most politically and economically influential member nation. Chancellor Angela Merkel, in office since 2005, secured a fourth term in 2018 when her centrist Christian Democratic Union and Christian Social Union parties formed a tenuous coalition with the Social Democratic Party after inconclusive 2017 parliamentary elections. The ongoing political stalemate and the general weakness of centrist political parties have hampered the government's ability to address key issues. Germany's solid economy, the world's fourth largest and Europe's largest, is based on exports of high-quality manufactured goods. Germany has come under fire from other European countries and the United States for its low level of defense spending and construction of a second natural gas pipeline link with Russia.

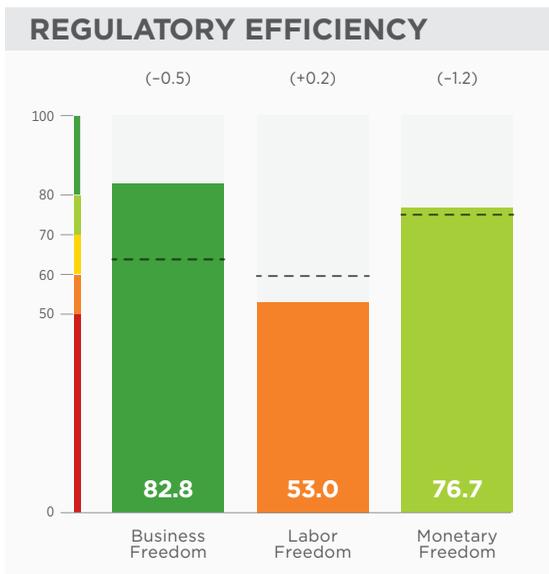
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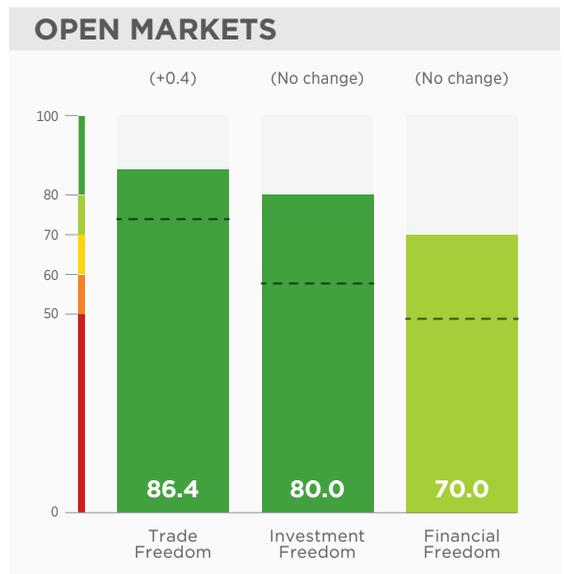
Under the government’s policy of national treatment, property owned by foreigners is fully protected under German law. Secured interests in property, both chattel and real, are recognized and enforced. The judiciary is independent, judges are highly competent, and the rule of law prevails. Rare cases of public corruption occur (for example, in the construction sector), but corrupt acts are typically prosecuted and punished.



The top personal income tax rate is 47.5 percent (including a 5.5 percent surcharge). The federal corporate rate is 15.8 percent (effectively above 30 percent with other taxes). The tax burden equals 37.5 percent of total domestic income. Government spending has amounted to 43.9 percent of the country’s output (GDP) over the past three years, and budget surpluses have averaged 1.2 percent of GDP. Public debt is equivalent to 59.8 percent of GDP.



Germany’s legal, regulatory, and accounting systems can be complicated but are transparent and generally applied evenly. The nationwide statutory minimum wage was raised again in 2019. Germany’s “dual vocational training” teaches and develops practical skills that employers value. The government continues to fund heavy green energy subsidies, especially for electric vehicles, although falling technology costs may permit those subsidies to be reduced.



The total value of exports and imports of goods and services equals 87.2 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. Germany has one additional country-specific nontariff barrier. In late 2018, the government expanded the scope of its foreign direct investment screening mechanism. The competitive financial sector offers a full range of services.