

GERMANY

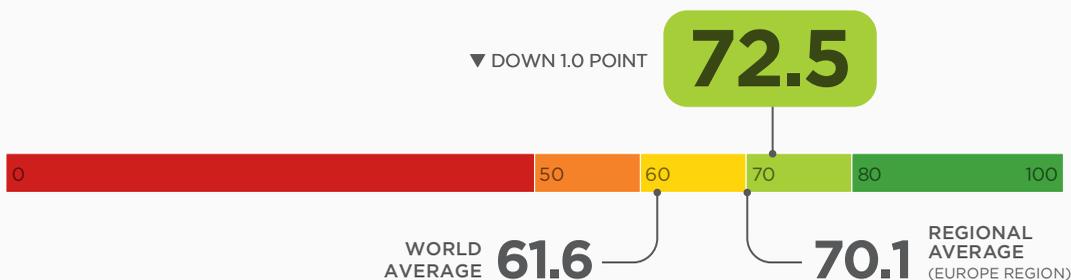
Germany's economic freedom score is 72.5, making its economy the 29th freest in the 2021 *Index*. Its overall score has decreased by 1.0 point, primarily because of a decline in **judicial effectiveness**. Germany is ranked 16th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The German economy remains in the lower reaches of the mostly free ranks again this year. The potential for greater economic freedom is stymied by systemically high government spending as well as costly and rigid labor laws. Unfortunately, government spending is likely to increase rather than decrease in the near future.

IMPACT OF COVID-19: As of December 1, 2020, 17,177 deaths had been attributed to the pandemic in Germany, and the economy was forecast to contract by 6.0 percent for the year.

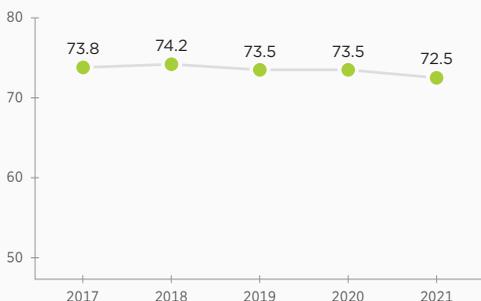


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +2.7

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
83.1 million

GDP (PPP):
\$4.4 trillion
0.6% growth in 2019
5-year compound annual growth 1.7%
\$56,052 per capita

UNEMPLOYMENT:
3.0%

INFLATION (CPI):
1.3%

FDI INFLOW:
\$36.4 billion

PUBLIC DEBT:
59.8% of GDP

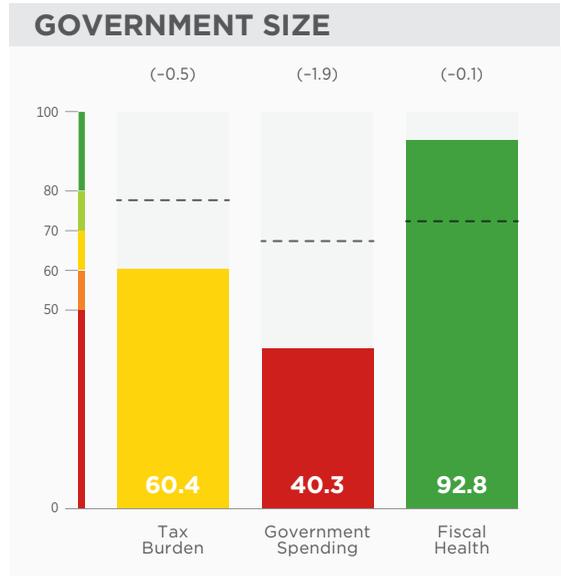
2019 data unless otherwise noted. Data compiled as of September 2020

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 (CDU/CSU) formed a tenuous coalition with the Social Democratic Party. The stakes are high in any effort to succeed Merkel because CDU/CSU remains by far the most popular party ahead of the 2021 elections. 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 its construction of a second natural gas pipeline link with Russia.

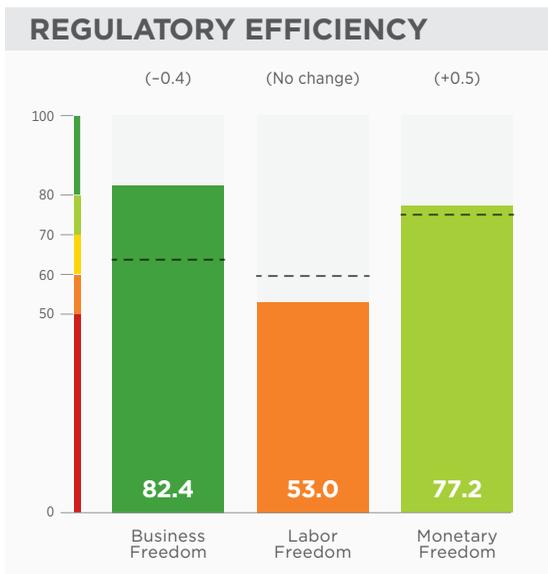
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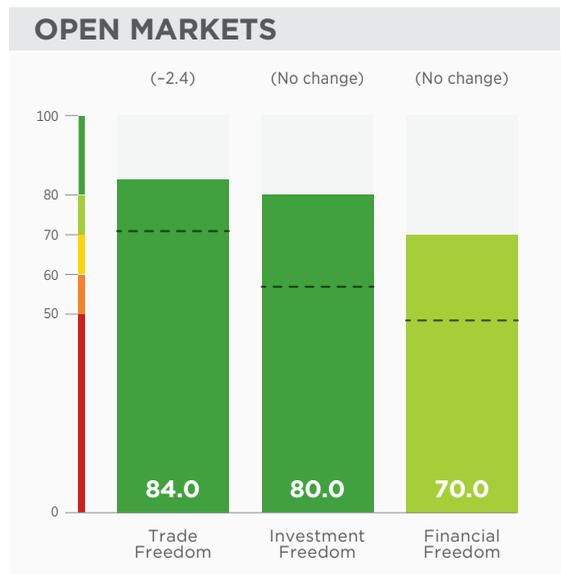
Secured interests in property, both chattel and real, are recognized and enforced for both German citizens and foreigners. Germany also boasts a robust regime to protect intellectual property rights. The judiciary is independent, and the rule of law is well established. Cases of public corruption (e.g., allegations of irregularities in the construction and defense sectors) are rare, and corrupt acts are typically prosecuted and punished.



The top individual income tax rate is 47.5 percent, and the federal corporate tax rate is 15.8 percent (effectively above 30 percent with other taxes). The overall tax burden equals 38.2 percent of total domestic income. Government spending has amounted to 44.6 percent of total output (GDP) over the past three years, and budget surpluses have averaged 1.5 percent of GDP. Public debt is equivalent to 59.8 percent of GDP.



Germany has maintained its high level of business freedom, although the asset recovery rate when resolving insolvency has declined slightly. The labor force is highly skilled, but low fertility and a large increase in net immigration pose demographic challenges. German labor laws complicate the hiring and dismissing of employees. The government budgeted 1 percent of GDP in 2020 for subsidies aimed mostly at the renewable energy sector.



As a member of the EU, Germany has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. Germany has two additional country-specific nontariff barriers. Openness to global commerce supports long-term competitiveness and investment. The well-functioning and modern financial sector offers a full range of services.