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COUNTRY REPORT

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GERMANY

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MAP



KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	SPD-Greens-FDP 80%
FIVE-YEAR	*Center-Right Coalition 50%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	Low	A	A-	A-
FIVE-YEAR	Low	A	A-	A-

() Indicates change in rating

* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	0.6	2.8	281.43
2023(F)	-0.4	6.1	230.00
2024-2028(F)	1.5	2.3	310.00

AFD GAINS AS COALITION FEUDS

The so-called “traffic light” coalition of Chancellor Olaf Scholz’s center-left SPD, the Greens, and the liberal FDP suffered a beating at state polls in Bavaria and Hesse held in early October. As expected, the center-right CDU retained its dominant position in Hesse, while its Bavarian counterpart, the CSU, finished on top once again in that state. However, the biggest winner was the far-right AfD, which pushed into third place in Bavaria, overtaking the Greens, and took 18.4% of the vote in Hesse, good enough for second place and the party’s strongest showing ever in the former West Germany.

The recent elections are a wake-up call for a federal coalition that won 52% of the vote at the 2021 elections, but according to the latest national polls now claims the combined support of only one-third of the electorate. However, it is an open question whether the SPD and its partners are capable of evincing the level of cooperation that will be required to weather the current political turbulence.

The flagging fortunes of the junior coalition partners have put pressure on leaders of the Greens and the FDP to appease their disillusioned supporters by pushing policies that frequently place their parties in direct conflict. Scholz has spent much of the last 18 months refereeing open squabbling between Economy Minister Robert Habeck, a senior leader of the Greens, and Finance Minister Christian Lindner, the leader of the FDP, with mixed success.

The specter of further gains for the AfD may create an incentive for the Greens and the FDP to at least keep their disputes out of the public eye going forward. But the success of the AfD makes clear that the environmental goals of the Greens and the tight controls on spending favored by the FDP are out of step with the priorities of a significant and growing percentage of the electorate. As such, even if the junior partners decide that compromise is in their mutual interest (which is hardly a given), there are no assurances that doing so would help to rebuild their popular support.

The mainstream parties remain committed to limiting the political influence of the AfD, and the recent formation of a new leftist populist party, BSW-For Reason and Justice, created by a splinter faction of The Left headed by Sahra Wagenknecht, might create competition for the support of disaffected voters that cuts into the AfD's base. However, keeping the AfD out of power at the national level after the next elections will likely require the formation of another strange-bedfellows alliance that figures to be no less ineffective and prone to instability than the incumbent administration.

Revised GDP data for April-June 2023 confirmed that the economy stagnated compared to the previous quarter, following two consecutive quarters of contraction, and with the monthly data pointing to declining industrial production, a shrinking construction sector, and weakening consumption, the growth figure for the July-September period will likely be negative. The timing of a recovery remains unclear, as a combination of high interest rates and weak external demand is dampening business activity, while a decline in real wages and tighter credit conditions are weighing on consumer confidence.

On balance, the economy is forecast to contract by 0.4% in real terms in 2023, and there is a risk that the economy could again fall into recession at the close of the year. The reinstatement of the debt-brake rule from next year will constrain spending going forward, which will facilitate the narrowing of the budget deficit to less than 2% of GDP next year but will also weigh on growth. Habeck recently unveiled a strategy paper on boosting competitiveness that called for decisive action to bring down energy costs, but an expansion of existing subsidies is likely to run into opposition from the FDP, and any attempt to reduce red tape that includes a relaxation of environmental restrictions will meet resistance from the Greens.

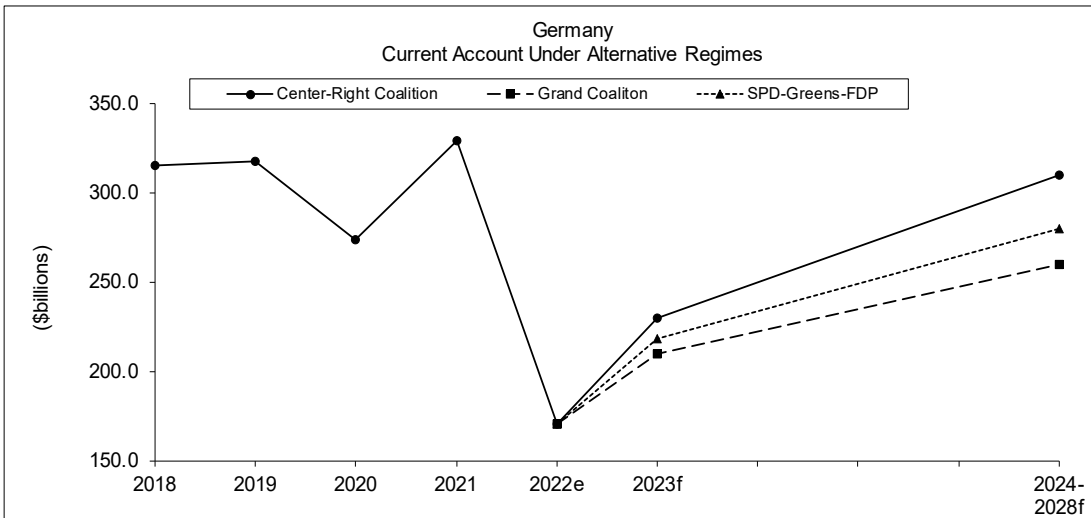
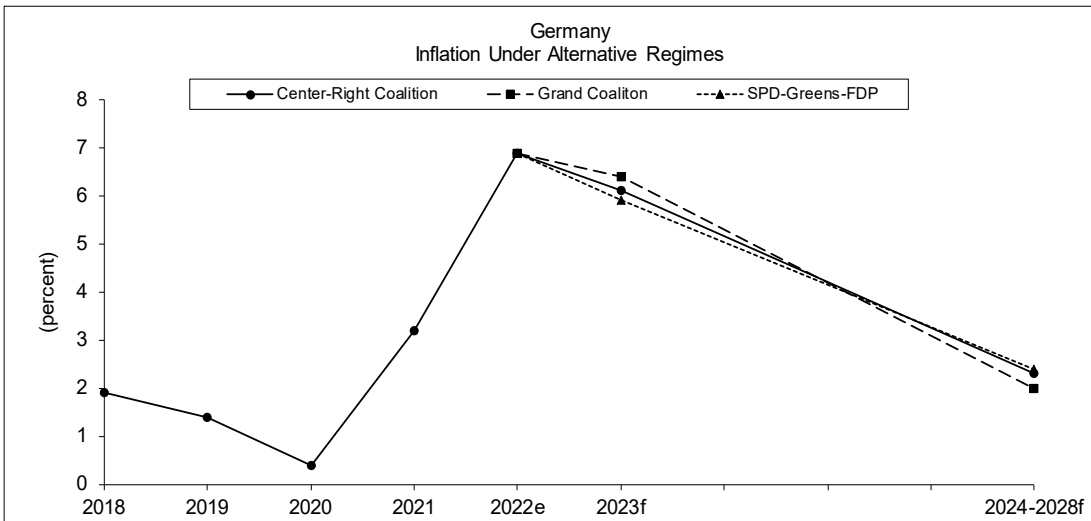
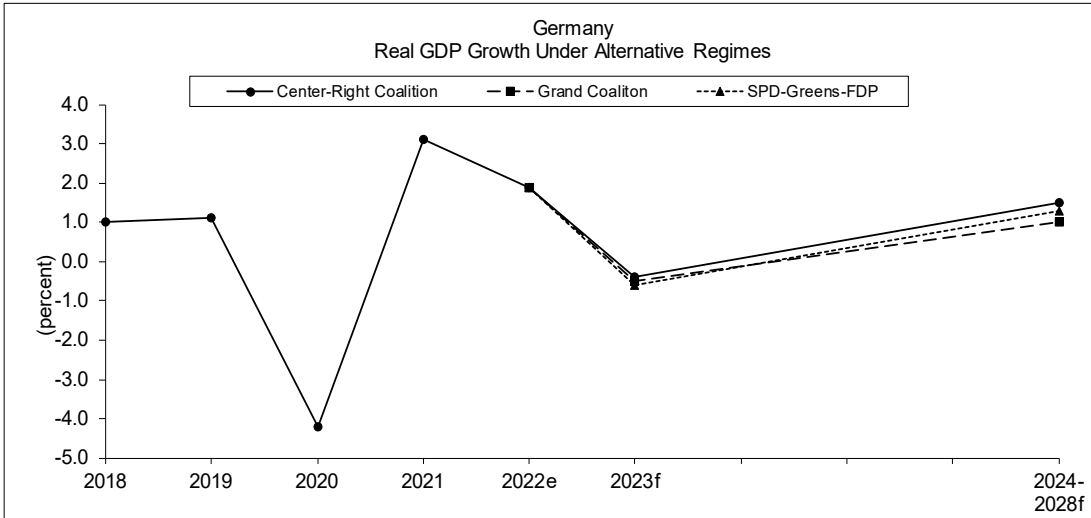
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

	Center-Right Coalition			Grand Coalition			SPD-Greens-FDP		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	-0.4	6.1	230.00	-0.5	6.4	210.00	-0.6	5.9	218.00
2024-2028	1.5	2.3	310.00	1.0	2.0	260.00	1.3	2.4	280.00

REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		SPD-Greens-FDP 80%	Center-Left Minority 15%	Grand Coalition 5%
RISK FACTORS	CURRENT			
Turmoil	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Low	Same	Same	Same
Operations	Low	SLIGHTLY MORE	SLIGHTLY MORE	Same
Taxation	Moderate	Same	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	Same
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Very High	Same	Same	Same
Foreign Debt	Moderate	Same	Same	Same
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*Center-Right Coalition 60%	Grand Coaliton 30%	SPD-Greens-FDP 10%
RISK FACTORS	BASE			
Turmoil	Low	SLIGHTLY MORE	SLIGHTLY MORE	Same
Restrictions				
Investment	Moderate	SLIGHTLY LESS	Same	Same
Trade	Moderate	Same	Same	Same
Economic Problems				
Domestic	Moderate	SLIGHTLY LESS	Same	SLIGHTLY LESS
International	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	SLIGHTLY LESS

* When present, indicates forecast of a new regime



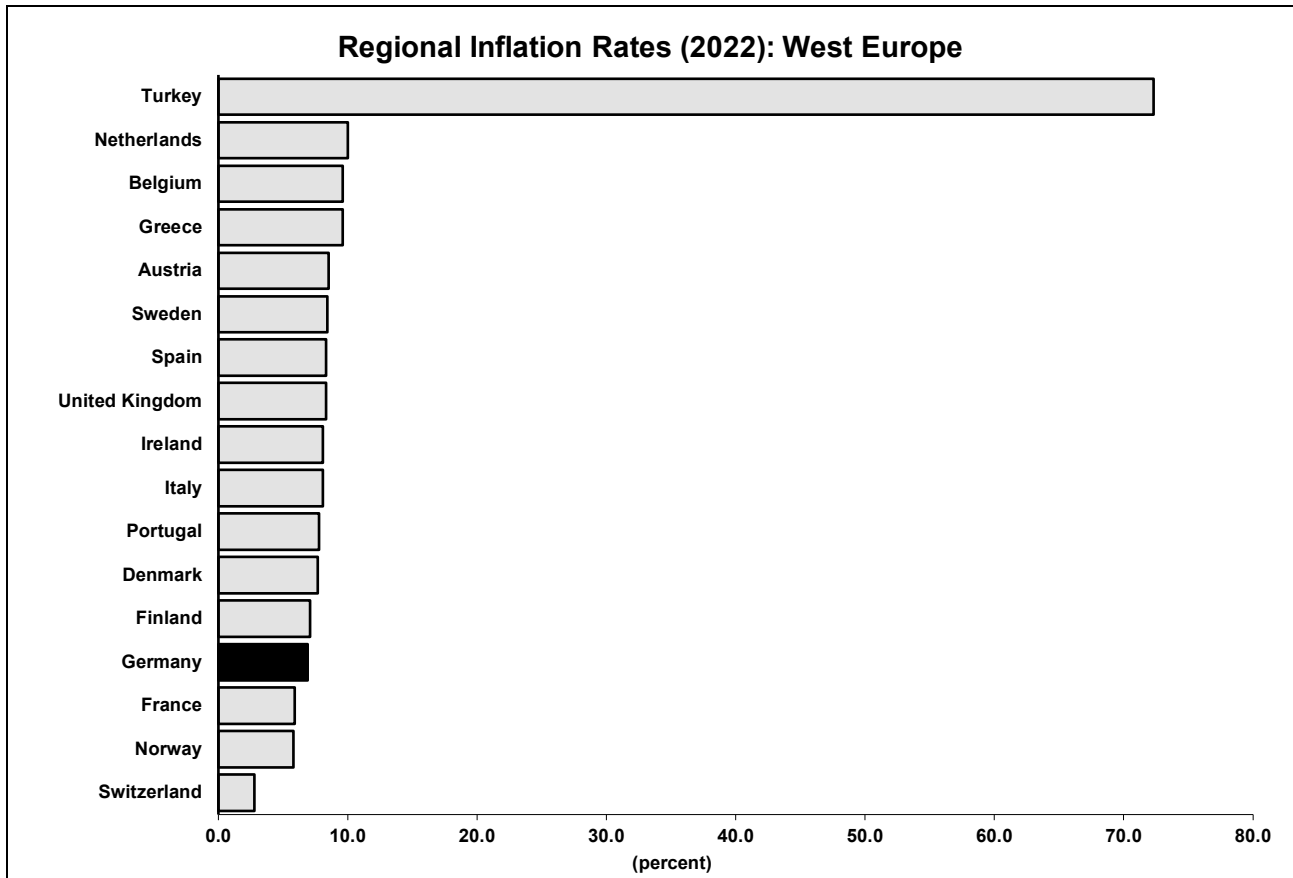
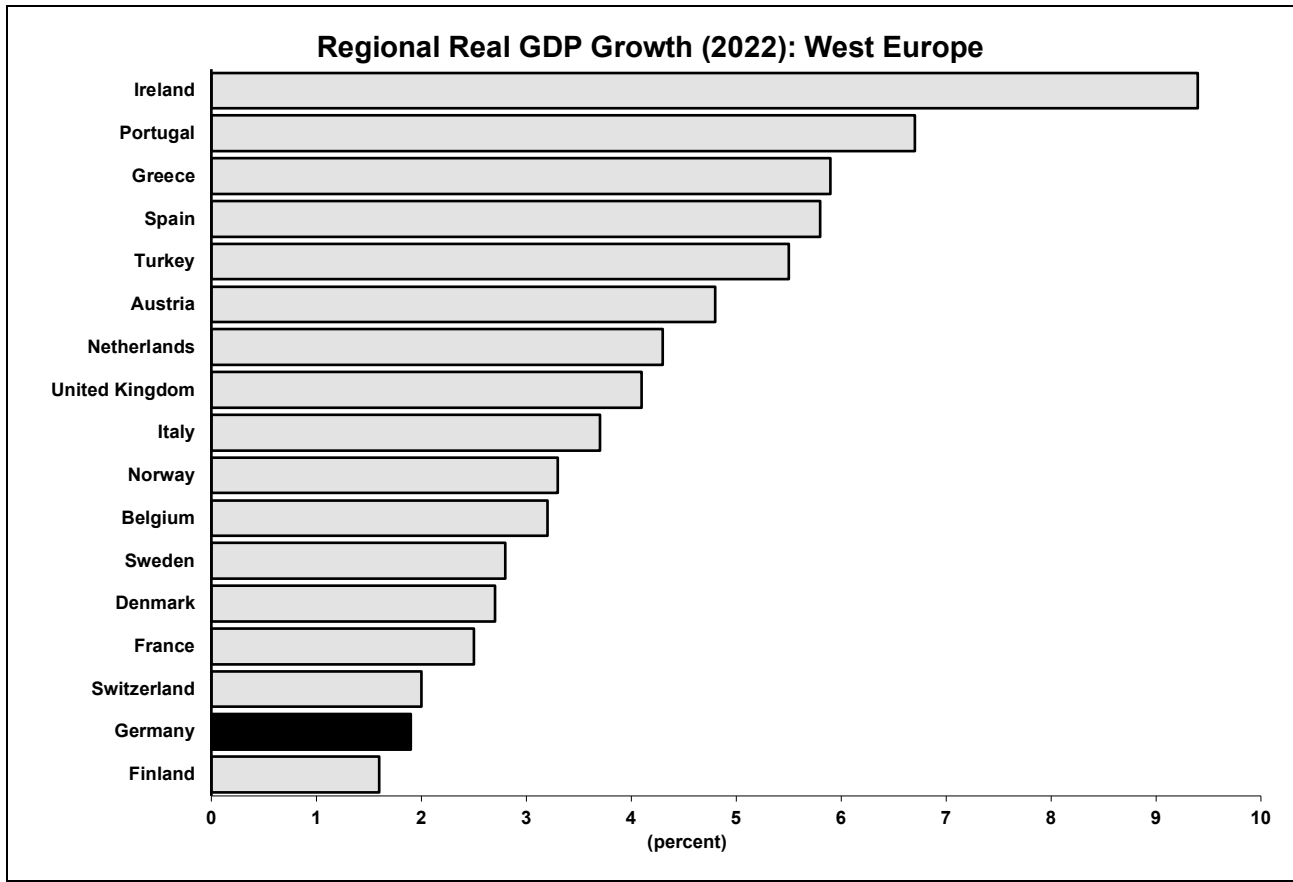
Germany Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, \$bn)	3627.09	4015.92	3739.84	3893.79	3352.05	3461.70	3688.06
Per Capita GDP (\$)	44400	48142	46017	47782	41024	42262	44916
Real GDP Growth Rate (%)	1.8	0.6	0.5	2.2	1.2	2.1	3.0
Inflation Rate (%)	1.0	2.8	1.6	0.8	0.7	0.4	1.7
Capital Investment (\$bn)	730.53	861.34	745.77	781.83	670.10	701.08	753.85
Capital Investment/GDP (%)	20.1	21.4	19.9	20.1	20.0	20.3	20.4
Budget Revenues (\$bn)	1638.43	1875.26	1679.51	1744.90	1513.15	1578.26	1676.35
Budget Revenues/GDP (%)	45.2	46.7	44.9	44.8	45.1	45.6	45.5
Budget Expenditures (\$bn)	1609.15	1931.16	1675.45	1724.95	1478.25	1536.99	1630.12
Budget Expenditures/GDP (%)	44.4	48.0	44.8	44.3	44.1	44.4	44.2
Budget Balance (\$bn)	29.28	-55.90	4.06	19.95	34.90	41.27	46.23
Budget Balance/GDP (%)	0.8	-1.3	0.1	0.5	1.0	1.2	1.3
Money Supply (M1, \$bn)	2376.13	2980.42	2198.14	2386.88	2249.95	2418.59	2627.08
Change in Real Wages (%)	1.4	-0.5	-0.1	1.9	2.4	1.8	0.8
Unemployment Rate (%)	4.3	3.3	5.0	4.7	4.4	3.9	3.6
International Economic Indicators							
Foreign Direct Investment (\$bn)	64.33	108.28	66.90	18.32	62.24	64.18	110.00
Forex Reserves (\$bn)	37.33	41.26	38.73	37.21	36.39	36.89	37.44
Gross Reserves (ex gold, \$bn)	61.42	68.79	67.37	62.27	58.51	59.58	59.36
Gold Reserves (\$bn)	128.59	179.92	130.84	130.48	115.18	125.70	140.74
Gross reserves (inc gold, \$bn)	190.01	248.71	198.21	192.75	173.69	185.28	200.10
Total Foreign Debt (\$bn)	5480.66	6265.52	5736.46	5969.32	5068.11	5270.59	5358.84
Total Foreign Debt/GDP (%)	151.1	155.8	153.4	153.3	151.2	152.3	145.3
Debt Service (\$bn)	166.62	182.49	190.01	168.90	155.92	154.37	163.91
Debt Service/XGS (%)	8.3	8.0	8.9	8.0	8.3	8.1	8.0
Current Account (\$bn)	280.23	281.43	244.82	280.85	288.01	298.89	288.57
Current Account/GDP (%)	7.7	7.0	6.5	7.2	8.6	8.6	7.8
Current Account/XGS (%)	14.0	12.5	11.5	13.3	15.3	15.7	14.1
Exports (\$bn)	1381.53	1517.76	1422.92	1470.02	1293.34	1304.39	1416.98
Imports (\$bn)	1100.63	1303.19	1152.27	1178.35	1017.96	1025.17	1129.40
Trade Balance (\$bn)	280.90	214.57	270.65	291.67	275.38	279.22	287.58
Exports of Services (\$bn)	294.96	378.35	276.57	303.90	280.84	293.26	320.22
Income, credit (\$bn)	261.32	282.04	355.34	254.31	224.81	235.82	236.33
Transfers, credit (\$bn)	78.07	97.91	80.11	82.97	79.57	72.36	75.34
Exports G&S (\$bn)	2015.88	2276.07	2134.94	2111.20	1878.56	1905.83	2048.87
Liabilities (\$bn)	73.51	293.53	69.16	17.33	30.76	130.79	119.53
Net Reserves (\$bn)	116.49	-44.82	129.05	175.42	142.93	54.49	80.57
Liquidity (months import cover)	1.3	-0.3	1.3	1.8	1.7	0.6	0.9
Currency Exchange Rate	0.840	0.883	0.753	0.753	0.902	0.904	0.887
Currency Change (%)	-2.3	-1.2	3.3	0.0	-16.5	-0.2	1.9
Social Indicators							
Population (million)	81.70	83.41	81.27	81.49	81.71	81.91	82.11
Population Growth (%)	0.3	0.5	0.3	0.3	0.3	0.2	0.2
Infant Deaths/1000	3	3	4	4	3	3	3
Persons under Age 15 (%)	13	13	13	13	13	13	13
Urban Population (%)	75	77	74	75	75	76	76
Urban Growth (%)	0.8	0.4	0.2	1.6	0.3	1.6	0.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	2	1	2	2	2	2	2
Industry-Commerce Work Force (%)	24	27	24	24	24	24	24
Services Work Force (%)	74	72	74	74	74	74	74
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 ¹⁵ Btu)	13.86	13.93	14.07	13.65	13.82	13.86	13.92
Energy - consumption/head (10 ⁹ Btu)	0.17	0.17	0.17	0.17	0.17	0.17	0.17

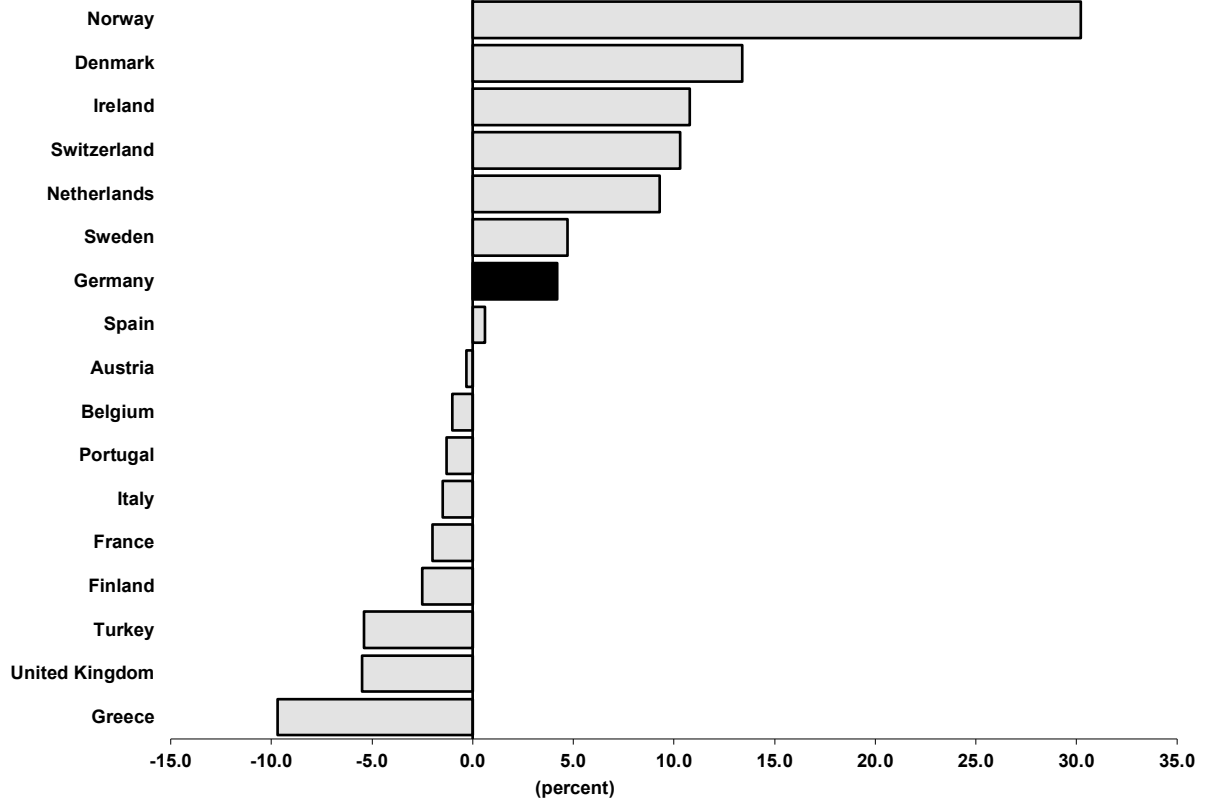
Germany Econometric Data

	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, \$bn)	3627.09	4015.92	3974.45	3897.31	3873.11	4265.13	4069.59
Per Capita GDP (\$)	44400	48142	48310	47280	46230	50649	48241
Real GDP Growth Rate (%)	1.8	0.6	1.0	1.1	-4.2	3.1	1.9
Inflation Rate (%)	1.0	2.8	1.9	1.4	0.4	3.2	6.9
Capital Investment (\$bn)	730.53	861.34	838.92	832.78	832.80	905.63	896.58
Capital Investment/GDP (%)	20.1	21.4	21.1	21.4	21.5	21.2	22.0
Budget Revenues (\$bn)	1638.43	1875.26	1836.35	1810.15	1790.06	2024.66	1915.07
Budget Revenues/GDP (%)	45.2	46.7	46.2	46.5	46.2	47.5	47.1
Budget Expenditures (\$bn)	1609.15	1931.16	1760.68	1753.79	1955.92	2170.95	2014.45
Budget Expenditures/GDP (%)	44.4	48.0	44.3	45.0	50.5	50.9	49.5
Budget Balance (\$bn)	29.28	-55.90	75.67	56.36	-165.86	-146.29	-99.38
Budget Balance/GDP (%)	0.8	-1.3	1.9	1.5	-4.3	-3.4	-2.4
Money Supply (M1, \$bn)	2376.13	2980.42	2875.25	2621.95	3002.05	3372.77	3030.07
Change in Real Wages (%)	1.4	-0.5	1.0	1.2	-0.2	0.3	-4.7
Unemployment Rate (%)	4.3	3.3	3.2	3.2	3.6	3.6	3.1
International Economic Indicators							
Foreign Direct Investment (\$bn)	64.33	108.28	168.24	73.66	158.38	95.13	45.98
Forex Reserves (\$bn)	37.33	41.26	36.51	35.88	36.89	38.60	58.40
Gross Reserves (ex gold, \$bn)	61.42	68.79	58.80	59.05	63.97	64.93	97.22
Gold Reserves (\$bn)	128.59	179.92	131.64	164.12	204.81	205.51	193.52
Gross reserves (inc gold, \$bn)	190.01	248.71	190.44	223.17	268.78	270.44	290.74
Total Foreign Debt (\$bn)	5480.66	6265.52	5706.26	5735.00	6285.22	7250.98	6350.16
Total Foreign Debt/GDP (%)	151.1	155.8	143.6	147.2	162.3	170.0	156.0
Debt Service (\$bn)	166.62	182.49	179.66	176.38	163.20	195.22	197.99
Debt Service/XGS (%)	8.3	8.0	8.0	8.0	8.1	8.0	8.0
Current Account (\$bn)	280.23	281.43	315.58	317.86	273.93	329.42	170.38
Current Account/GDP (%)	7.7	7.0	7.9	8.2	7.1	7.7	4.2
Current Account/XGS (%)	14.0	12.5	14.1	14.4	13.6	13.5	6.9
Exports (\$bn)	1381.53	1517.76	1521.78	1466.60	1356.05	1613.71	1630.68
Imports (\$bn)	1100.63	1303.19	1260.01	1220.75	1138.23	1383.94	1513.03
Trade Balance (\$bn)	280.90	214.57	261.77	245.85	217.82	229.77	117.65
Exports of Services (\$bn)	294.96	378.35	356.95	366.85	331.33	407.93	428.70
Income, credit (\$bn)	261.32	282.04	285.03	281.24	231.19	302.27	310.47
Transfers, credit (\$bn)	78.07	97.91	81.98	90.00	96.25	116.36	104.98
Exports G&S (\$bn)	2015.88	2276.07	2245.74	2204.69	2014.82	2440.27	2474.83
Liabilities (\$bn)	73.51	293.53	331.13	201.55	106.24	477.94	350.80
Net Reserves (\$bn)	116.49	-44.82	-140.69	21.62	162.54	-207.50	-60.06
Liquidity (months import cover)	1.3	-0.3	-1.3	0.2	1.7	-1.8	-0.5
Currency Exchange Rate	0.840	0.883	0.848	0.893	0.877	0.846	0.951
Currency Change (%)	-2.3	-1.2	4.6	-5.0	1.8	3.7	-11.0
Social Indicators							
Population (million)	81.70	83.41	82.27	82.43	83.78	84.21	84.36
Population Growth (%)	0.3	0.5	0.2	0.2	1.6	0.5	0.2
Infant Deaths/1000	3	3	3	3	3	3	2
Persons under Age 15 (%)	13	13	13	13	13	13	13
Urban Population (%)	75	77	77	77	77	76	77
Urban Growth (%)	0.8	0.4	1.5	0.2	0.3	-0.9	1.0
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	2	1	1	1	1	1	1
Industry-Commerce Work Force (%)	24	27	27	27	27	27	27
Services Work Force (%)	74	72	72	72	72	72	72
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 ¹⁵ Btu)	13.86	13.93	14.00	14.03	14.04	14.32	13.25
Energy - consumption/head (10 ⁹ Btu)	0.17	0.17	0.17	0.17	0.17	0.17	0.16

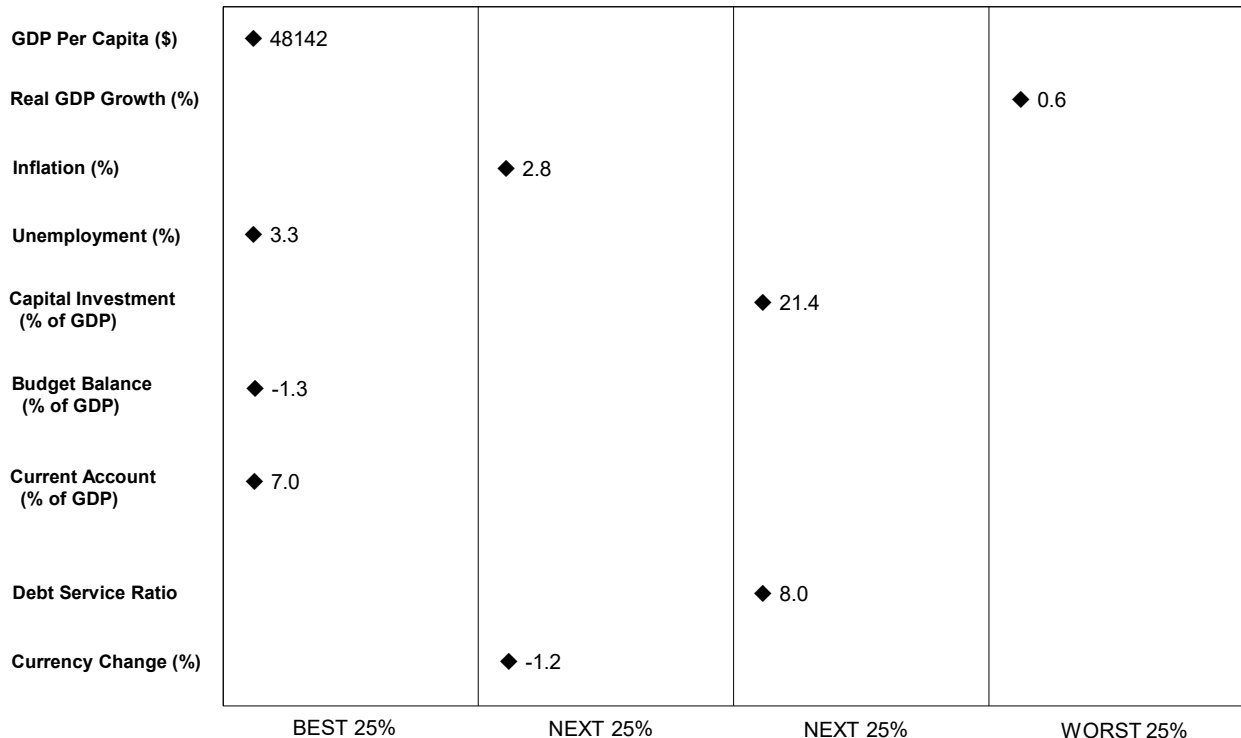
INTRA-REGIONAL COMPARISONS



Regional Current Account/GDP (2022): West Europe



Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



GEOPOLITICAL & ECONOMIC ANALYSIS

AFD GAINING AT EXPENSE OF FEUDING COALITION PARTIES

The so-called “traffic light” coalition of Chancellor Olaf Scholz’s center-left Social Democratic Party (SPD), the Greens, and the liberal Free Democratic Party (FDP) suffered a beating at state polls in Bavaria and Hesse held in early October. The SPD put in a worst-ever performance in both states, while the Greens gave back a significant portion of the large gains they made in both Bavaria and Hesse at elections in 2018. The FDP, never a serious contender in either state, barely passed the 5% threshold to qualify for seats in the state parliament in Hesse and fell short of the mark in Bavaria, at the cost of the 11 seats it won five years ago.

As expected, the center-right Christian Democratic Union (CDU) retained its dominant position in Hesse, where it is expected to continue governing in partnership with the Greens, while its Bavarian counterpart, the Christian Social Union (CSU), finished on top once again in that state, creating a basis for renewing its coalition with the conservative Free Voters of Bavaria. However, the biggest winner was the far-right Alternative for Germany (AfD), which pushed into third place in Bavaria, overtaking the Greens, and took 18.4% of the vote in Hesse, good enough for second place and the party’s strongest showing ever in the former West Germany.

CDU leader Friedrich Merz has attempted to undermine the AfD’s appeal by steering his party to the right since taking over in early 2022, but with little success. The AfD has continued to gain strength nationwide on the basis of an overtly anti-green and anti-immigration platform, its popularity reinforced by skillful exploitation of discontent among an electorate struggling with soaring living costs, and it is currently leading the polls (with more than 30% support) in the eastern states of Brandenburg, Thuringia, and Saxony, all of which are due to hold elections next year.

The recent elections are a wake-up call for a federal coalition that won 52% of the vote at the 2021 elections, but according to the latest national polls now claims the combined support of only one-third of the electorate. However, it is an open question whether the SPD and its partners are capable of evincing the level of cooperation that will be required to weather the current political turbulence.

Scholz’s government took office in late 2021 with an ambitious agenda that featured plans for an aggressive green energy transition and the restoration of the strict limits on government borrowing that were suspended in 2020 amid the COVID-19 pandemic, reflection the key respective demands of the Greens and the FDP. However, Russia’s invasion of Ukraine in late February 2022 forced the partners to rethink their energy strategy and contributed to soaring costs for households and businesses, forcing the coalition partners to reorder their near-term priorities.

The flagging fortunes of the junior coalition partners have put pressure on leaders of the Greens and the FDP to appease their disillusioned supporters by pushing policies that frequently place their parties in direct conflict. Scholz has spent much of the last 18 months refereeing open squabbling between Economy Minister Robert Habeck, a senior leader of the Greens, and Finance Minister Christian Lindner, the leader of the FDP, with mixed success.

The FDP has thrown up obstacles to the Greens' climate proposals, typically citing cost concerns, and has pressed Lindner to deliver a spending plan for 2024 that is consistent with the reinstitute of restrictions on new borrowing (the so-called "debt brake") beginning next year. Even when Scholz has managed to achieve a compromise, as in the case of a proposed ban on the use of gas heaters, the tweaks made to the legislation, which was approved after a long delay in August, are projected to significantly reduce the environmental benefits.

The battling between the Greens and the FDP has also impeded legislative efforts to jump-start an economy that is struggling to recover from the twin blows delivered by the COVID-19 pandemic and the damaging economic fallout from the war in Ukraine. In August, the Greens blocked Cabinet approval of a measure to provide tax relief for corporations after Lindner refused to raise spending on child welfare. A revised version of the Growth Opportunities Act was subsequently approved, but the episode raised fresh doubts about Scholz's ability to manage conflict within his coalition and reinforced the broadly pessimistic mood among the electorate.

The specter of further gains for the AfD may create an incentive for the Greens and the FDP to at least keep their disputes out of the public eye going forward. But the success of the AfD makes clear that the environmental goals of the Greens and the tight controls on spending favored by the FDP are out of step with the priorities of a significant and growing percentage of the electorate. As such, even if the junior partners decide that compromise is in their mutual interest (which is hardly a given), there are no assurances that doing so would help to rebuild their popular support.

The SPD's abandonment by either of its coalition partners would cost the government its majority. However, constitutional hurdles that make it difficult to force a snap election will create a disincentive for the Greens to defect, and the FDP's sagging popularity will limit its appetite for risking an early return to the polls. But is an open question whether the increasingly fractious coalition can do much more than merely survive until an election falls due in September 2025.

The mainstream parties remain committed to limiting the political influence of the AfD, and the recent formation of a new leftist populist party, BSW-For Reason and Justice, created by a splinter faction of The Left headed by Sahra Wagenknecht, might create competition for the support of disaffected voters that cuts into the AfD's base. However, keeping the AfD out of power at the national level after the next

elections will likely require the formation of another strange-bedfellows alliance that figures to be no less ineffective and prone to instability than the incumbent administration.

AT ODDS WITH EU PARTNERS

The infighting in Scholz's government is also contributing to prickly relations between Germany and its EU partners. Disagreement among the coalition partners on issues related to financial support for Ukraine, debt, and climate policies is preventing Germany from playing a constructive role in the EU's deliberations on those important topics, and in some cases, for example, the government's U-turn on a plan to ban the use of internal combustion engines from 2023, Germany has become an obstacle to action on matters where there is otherwise broad consensus among the EU membership.

Approval of a new migration plan was held up by opposition by the Greens to a so-called "crisis regulation," which authorizes stricter screening and lower standards of accommodation for asylum seekers at times when the influx of refugees is unusually high. The dispute enflamed tensions within the coalition, as both the SPD and the FDP were keen to be seen as taking action on the hot-button issue of immigration. Scholz ultimately overruled the objections of Foreign Minister Annalena Baerbock and announced Germany's support for the plan in late September.

More recently, Germany has found itself at odds with its EU partners over the bloc's response to Israel's preparations for military action in Gaza in response to a series of coordinated attacks by Hamas that resulted in some 1,400 Israeli deaths earlier this month. On October 23, Baerbock used Germany's veto to block an EU declaration backing calls by UN Secretary-General António Guterres for a humanitarian cease-fire, reflecting concerns of alienating the Israeli government (Israeli UN Ambassador Gilad Erdan denounced Guterres' statements about conditions in Gaza as a "blood libel") and Germany's tradition of unequivocal support for Israel's right to self-defense that is rooted in a sense of historical responsibility for the fate of the Jewish people.

In the end, mention of a cease-fire was dropped in favor of reference to a "humanitarian pause." However, the dispute highlights the potential for future battles if a rising death toll from military action in Gaza fuels grassroots anti-Israel sentiment in Europe that could be exploited by populist parties on both the far left and the far right, putting pressure on mainstream parties across the continent to become less nuanced with their positions on the conflict.

PRESSURE FOR REFORM GROWS AS ECONOMY STALLS

Revised GDP data for April-June 2023 confirmed that the economy stagnated compared to the previous quarter, following two consecutive quarters of contraction, and with the monthly data pointing to declining industrial production, a shrinking construction sector, and weakening consumption, the growth

figure for the July-September period will likely be negative. The timing of a recovery remains unclear, as a combination of high interest rates and weak external demand is dampening business activity, while a decline in real wages and tighter credit conditions are weighing on consumer confidence.

The manufacturing purchasing managers' index (PMI) rose slightly to 40.7 in October, a five-month high, but still far below the 50.0 level dividing expansion from contraction. Similarly, the Ifo business climate index increased for the first time in six months, but there is a long way to go before business confidence returns to the heights reached prior to the onset of the pandemic in early 2020.

Consumer confidence remained deep in negative territory in October, limiting the potential for a near-term boost from household spending. On balance, the economy is forecast to contract by 0.4% in real terms in 2023, and there is a risk that the economy could again fall into recession at the close of the year.

A surge in the ZEW Indicator of Economic Sentiment provides some glimmer of hope for an improvement in 2024. Although still negative, the gap closed from 11.4 in September to just 1.1% this month, indicating growing optimism that easing inflation will enable the ECB to hold interest rates stable over the coming months.

Year-on-year inflation dropped to 4.5% in September, the lowest figure since the start of the war in Ukraine. The decline was partly attributable to an easing of energy prices, but core inflation, which excludes energy and food, was also down, albeit slightly above the headline figure. Nevertheless, inflation remains far above the ECB's target of 2%, ruling out any chance of a near-term easing of monetary policy that might provide a boost to growth, which will be held to no more than 1% in 2024.

The government is facing increased pressure from business to take action to address bureaucratic obstacles and high energy costs that are undermining German manufacturers' ability to compete in the global market. BMW's chief of production, Milan Nedeljkovic, recently added his voice to those in the business community complaining about high energy costs and the inadequacies of Germany's transportation and communications infrastructure, which he disparaged as "unacceptable for a modern industrial location."

Economy Minister Habeck recently unveiled a strategy paper on boosting competitiveness that called for decisive action to bring down energy costs, including generous spending on subsidies. Scholz has promised to deliver both subsidies and tax breaks to reduce the energy bills of companies, but he has not provided details, and an expansion of existing subsidies is likely to run into opposition from Lindner. Similarly, to the extent that the chancellor's pledge to slash red tape implies a relaxation of environmental restrictions, reforms can be expected to meet resistance from the Greens.

The general government budget deficit amounted to 2.1% of GDP in the first half of 2023, which was larger than the shortfall recorded in the same period last year. Expenditures increased more than twice as fast as revenues (7.7% and 3.5%, respectively) year on year, and a similar trend in the second half points to a full-year deficit of about 2.5% of GDP. The reinstatement of the debt-brake rule from next year will constrain spending going forward, which will facilitate the narrowing of the deficit to less than 2% of GDP next year but will also weigh on growth.

Goods exports grew by more than 13% (year-on-year) in euro terms last year, but imports surged by close to 23% over the same period, resulting in a significant narrowing of the trade surplus that shrank the current account surplus to just 4.2% of GDP. Exports will grow at a slower pace in 2023, but an even more pronounced deceleration of imports growth will have a positive impact on the external balances, widening the current account surplus to 5% of GDP or more this year.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
<i>Very Low Risk</i>					
1	Norway	86.0	87.0	-1.0	2
1	Switzerland	86.0	87.3	-1.3	1
3	Luxembourg	85.8	86.0	-0.3	3
4	Denmark	84.8	84.3	0.5	6
5	Taiwan	84.5	84.3	0.3	6
6	Singapore	84.3	85.8	-1.5	4
7	Ireland	83.8	82.3	1.5	8
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.8	79.5	2.3	16
10	Canada	80.8	82.0	-1.3	10
10	Iceland	80.8	80.5	0.3	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
OCTOBER 2023 VERSUS NOVEMBER 2022

RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
13	United Arab Emirates	80.5	82.3	-1.8	8
14	Netherlands	80.3	79.8	0.5	15
15	Kuwait	80.0	80.8	-0.8	13
Low Risk					
16	Japan	79.8	76.3	3.5	26
16	Sweden	79.8	81.0	-1.3	12
18	Korea, Republic	79.5	77.8	1.8	22
19	Australia	79.3	81.3	-2.0	11
19	Botswana	79.3	77.0	2.3	24
21	Finland	78.8	78.3	0.5	20
21	New Zealand	78.8	76.0	2.8	27
23	Germany	78.5	78.8	-0.3	17
24	Hong Kong	78.0	74.0	4.0	36
25	Trinidad & Tobago	77.0	77.5	-0.5	23
26	Bahamas	76.8	71.0	5.8	55
26	Portugal	76.8	75.5	1.3	31
28	Austria	76.5	78.5	-2.0	19
28	Oman	76.5	78.3	-1.8	20
30	Czech Republic	75.8	75.5	0.3	31
31	Kazakhstan	75.5	76.0	-0.5	27
32	Guyana	75.3	75.8	-0.5	30
33	Uzbekistan	74.8	73	2.3	43
34	Belgium	74.5	74.5	0.0	35
34	Italy	74.5	73.5	1.0	38
36	Malaysia	74.3	73.5	0.8	38
37	Croatia	73.8	73.8	0.0	37
37	Libya	73.8	70.8	3.0	59
37	Malta	73.8	74.8	-1.0	34

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RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
37	Panama	73.8	73.5	0.3	38
37	Slovenia	73.8	73.0	0.8	41
37	United Kingdom	73.8	76.8	-3.0	25
37	Uruguay	73.8	75.3	-1.5	33
44	Azerbaijan	73.3	72.5	0.8	43
45	Costa Rica	73.0	72.0	1.0	48
46	Latvia	72.8	71.5	1.3	52
47	Jamaica	72.5	72.3	0.3	46
47	Spain	72.5	72.8	-0.3	42
49	Dominican Republic	72.3	72.5	-0.3	43
50	Brazil	71.8	70.0	1.8	65
50	Chile	71.8	71.8	0.0	49
50	France	71.8	72.3	-0.5	46
50	Israel	71.8	76.0	-4.3	27
54	Bulgaria	71.5	70.8	0.8	59
54	Philippines	71.5	70.8	0.8	59
54	Poland	71.5	71.0	0.5	55
54	Vietnam	71.5	70.8	0.8	59
58	Hungary	71.0	71.5	-0.5	52
58	India	71.0	70.3	0.8	63
60	Guatemala	70.8	71.0	-0.3	55
60	Thailand	70.8	65.0	5.8	88
62	United States	70.5	71.8	-1.3	49
63	China, Peoples' Rep.	70.0	69.5	0.5	67
Moderate Risk					
64	Cyprus	69.8	70.0	-0.3	65
64	Gabon	69.8	66.5	3.3	84
64	Lithuania	69.8	70.3	-0.5	63

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RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
67	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.0	71.5	-2.5	52
68	Indonesia	69.0	68.3	0.8	73
68	Papua New Guinea	69.0	69.3	-0.3	68
71	Greece	68.8	68.0	0.8	76
71	Mexico	68.8	68.3	0.5	73
73	Congo, Republic	68.5	64.3	4.3	94
73	Iraq	68.5	71.0	-2.5	55
73	Peru	68.5	68.0	0.5	76
76	Namibia	68.3	71.8	-3.5	49
76	Slovakia	68.3	68.8	-0.5	71
78	Algeria	67.8	69.3	-1.5	68
79	Romania	67.3	66.8	0.5	82
80	Ecuador	67.0	68.3	-1.3	73
80	Gambia	67.0	65.0	2.0	88
80	Honduras	67.0	66.8	0.3	82
83	Morocco	66.8	64.5	2.3	92
83	Russia	66.8	66.0	0.8	87
85	El Salvador	66.5	63.8	2.8	98
85	Mongolia	66.5	65.0	1.5	88
85	South Africa	66.5	67.3	-0.8	80
88	Tanzania	66.3	65.0	1.3	88
89	Armenia	66.0	60.0	6.0	110
90	Serbia	65.8	67.3	-1.5	80
91	Guinea-Bissau	65.3	64.0	1.3	96
91	Paraguay	65.3	64.3	1.0	94
93	Jordan	65.0	64.5	0.5	92
94	Albania	64.8	67.8	-3.0	79

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RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
95	Iran	64.3	66.5	-2.3	84
96	Bolivia	64.0	66.5	-2.5	84
96	Cote d'Ivoire	64.0	62.3	1.8	105
98	Colombia	63.8	64.0	-0.3	96
98	Nicaragua	63.8	62.8	1.0	101
100	Bangladesh	63.5	62.5	1.0	103
100	Togo	63.5	63.3	0.3	100
102	Madagascar	63.0	62.5	0.5	3
103	Zambia	62.3	62.8	-0.5	101
104	Ghana	62.0	58.8	3.3	115
105	Cuba	61.8	69.3	-7.5	68
106	Cameroon	61.5	60.3	1.3	108
107	Moldova	61.3	59.0	2.3	114
107	Ukraine	61.3	51.8	9.5	133
109	Angola	60.5	68.0	-7.5	76
110	Mozambique	60.0	54.5	5.5	128
110	Uganda	60.0	59.3	0.8	113
High Risk					
112	Guinea	59.8	57.3	2.5	124
112	Tunisia	59.8	61.3	-1.5	107
114	Belarus	59.3	57.0	2.3	126
114	Senegal	59.3	58.3	1.0	119
114	Suriname	59.3	58.5	0.8	117
117	Burkina Faso	59.0	59.5	-0.5	111
118	Myanmar	58.3	55.8	2.5	127
119	Ethiopia	58.0	58.5	-0.5	117
120	Mali	57.8	58.8	-1.0	115
121	Zimbabwe	57.5	61.5	-4.0	106

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RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
122	Egypt	57.3	57.8	-0.5	123
123	Congo, Dem. Republic	57.0	60.3	-3.3	108
123	Sierra Leone	57.0	53.5	3.5	131
125	Haiti	56.8	54.3	2.5	129
125	Kenya	56.8	58.3	-1.5	119
127	Argentina	56.3	63.8	-7.5	98
128	Nigeria	56.0	59.5	-3.5	111
129	Yemen, Republic	55.8	48.3	7.5	138
130	Turkey	55.5	54.3	1.3	129
131	Liberia	55.0	58.0	-3.0	121
131	Venezuela	55.0	58.0	-3.0	121
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.3	51.0	1.3	134
135	Somalia	51.8	52.0	-0.3	132
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	134
136	Pakistan	49.3	51.0	-1.8	134
138	Niger	47.8	57.3	-9.5	124
139	Syria	44.5	43.8	0.8	139
140	Sudan	43.5	43.0	0.5	140
141	Lebanon	34.8	41.3	-6.5	141

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