

BEST'S COUNTRY RISK REPORT

Germany CRT-1

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Germany is a CRT-1 country, with very low levels of economic, political, and financial system risk. As the world's fourth largest economy and a member of the eurozone, Germany is heavily relied on to support growth throughout the region.
- GDP growth was 2.5% in 2017 and is expected to remain at that level in 2018. Strong business investment and improving domestic demand will help support economic activity. Medium-term economic growth is expected to moderate to range between 1.5% and 2.0%.
- A.M. Best categorizes the majority of countries pictured as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Ukraine, and Romania.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Western Europe

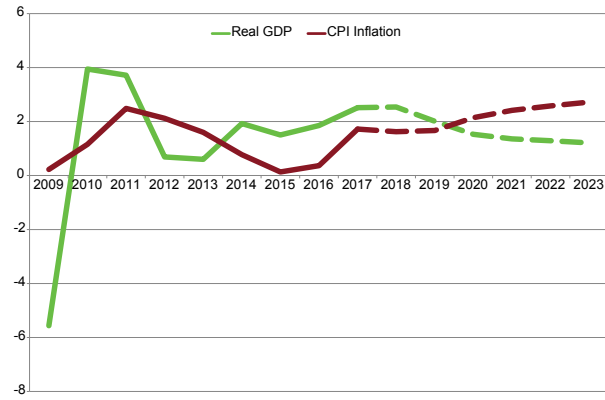
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017		
Nominal GDP	USD bn	3684.82
Population	mil	82.7
GDP Per Capita	USD	44,550
Real GDP Growth	%	2.5
Inflation Rate	%	1.7
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	75.7
Dependency Ratio	%	52.1
Life Expectancy	Years	80.8
Median Age	Years	47.1
Insurance Statistics		
Insurance Regulator	Federal Financial Supervisory Authority (BaFin)	
Premiums Written (Life)	USD mil	96,973
Premiums Written (Non-Life)	USD mil	126,005
Premiums Growth (2016 - 2017)	%	-0.1
Regional Comparison		
	Country Risk Tier	
Germany	CRT-1	
France	CRT-1	
Italy	CRT-2	
Spain	CRT-2	
Switzerland	CRT-1	
United Kingdom	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



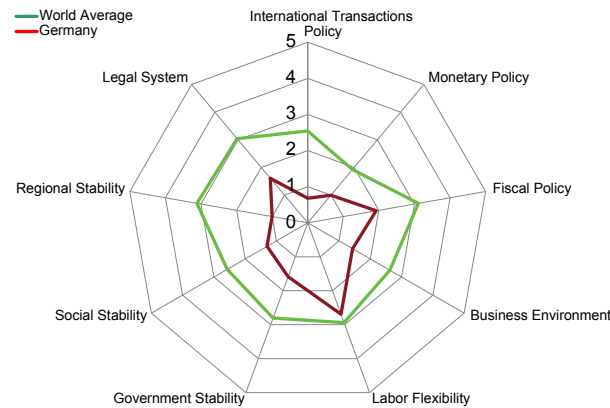
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

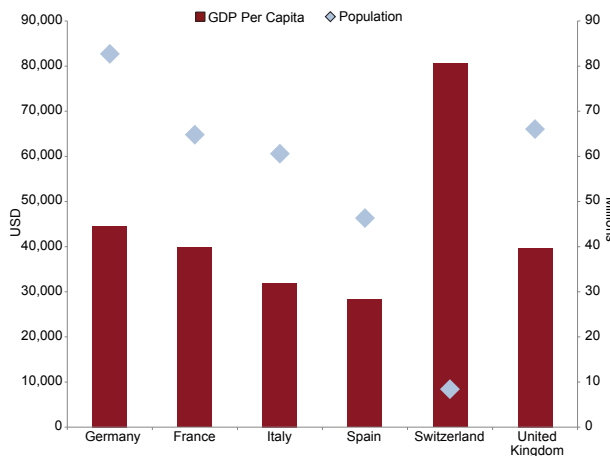
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Very Low

- Germany's diversified and competitive economy is the largest in Europe. The country has a generous social welfare program that will be strained as the population ages and immigration increases.
- Germany is a leading exporter of machinery, chemicals, and vehicles. Services is the biggest contributor to GDP, at approximately 69% of the total. Manufacturing is the second largest contributor, at approximately 23%.
- Public finances are strong, with the government running surpluses for the past few years. However, with the pressures of an aging population, proposed tax reductions, and the possible extension of unemployment benefits, the government surplus could be strained over the medium term.
- Strong job growth and rising wages should help propel solid private consumption. Currently, fields such as information technology and construction are short of workers, which will likely pressure wages upward.

Political Risk: Very Low

- In March 2018, Angela Merkel, from the CDU party, began her fourth consecutive term as chancellor, leading a coalition government of three different parties. The end of coalition party negotiations concluded months of political uncertainty following an inconclusive federal election in September 2017.
- Merkel's election will likely lead to a large degree of policy continuity and a stable political environment. However, the ruling parties disagree on several different areas. Security, social care, and migration issues will be the main focus for government policy.
- Germany is a member of the EU and one of the original 11 countries to adopt the euro as its currency in 1999.
- Thanks to its burgeoning economy and strong institutions, the country retains considerable influence both in the international community and in the European Union.
- The government increased spending by almost 4% for the 2019 budget, with increases in military and social security spending.

Financial System Risk: Very Low

- The German insurance sector is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Supervision of the industry dates back to the turn of the 20th century.
- Germany's banks are well capitalized, but rising competition and the prolonged low interest rate environment have resulted in weak profitability.
- The IMF notes that low interest rates have affected the life insurance sector's solvency ratio, and there is a need to minimize the reliance on guaranteed return products. The agency recommends further supervisory attention to these issues.