Germany
CRT-1
August 22, 2019
Region: Europe

Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers


- 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 upon to support growth throughout the region.

- Both GDP growth and inflation are projected to decline from 2018 to 2019. GDP is projected to be 0.8% in 2019, down from 1.5%, while inflation is projected at 1.3%, down from 1.9%. The German economy is the largest economy in the region and is driven by services (69% of GDP) and a strong manufacturing sector (23%).

- AM Best categorizes the majority of countries pictured as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries such as Belarus, Ukraine, and Romania.

Vital Statistics 2018

<table>
<thead>
<tr>
<th>Nominal GDP</th>
<th>USD bn</th>
<th>4000.39</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>mil</td>
<td>82.9</td>
</tr>
<tr>
<td>GDP Per Capita</td>
<td>USD</td>
<td>48,264</td>
</tr>
<tr>
<td>Real GDP Growth</td>
<td>%</td>
<td>1.5</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>%</td>
<td>1.9</td>
</tr>
</tbody>
</table>

United Nations Estimates

| Literacy Rate | %     | n.a.    |
| Urbanization  | %     | 77.3    |
| Dependency Ratio | %   | 52.8    |
| Life Expectancy | Years | 81.2    |
| Median Age    | Years | 45.9    |

Insurance Statistics

<table>
<thead>
<tr>
<th>Insurance Regulator</th>
<th>Federal Financial Supervisory Authority (BaFin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums Written (Life)</td>
<td>USD mil 92,297</td>
</tr>
<tr>
<td>Premiums Written (Non-Life)</td>
<td>USD mil 134,877</td>
</tr>
<tr>
<td>Premiums Growth</td>
<td>%</td>
</tr>
</tbody>
</table>

Regional Comparison

Country Risk Tier

- Germany: CRT-1
- France: CRT-1
- Italy: CRT-2
- Spain: CRT-2
- Switzerland: CRT-1
- United Kingdom: CRT-1

Regional Summary: Western Europe

- Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.

- Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.

- Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.

- The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Very Low

- Germany is the leading exporter of machinery, chemicals, and vehicles. The country’s diversified and competitive economy is the largest in Europe.
- As one of the world’s leading manufacturers, the German economy is highly sensitive to global trade tensions. Two of Germany’s biggest trade partners are the US and China, both of which have uncertain outlooks amid trade tensions. Germany is also affected by volatile commodity prices, as commodities constitute a large input in manufacturing.
- Population growth in Germany was 0.4% in 2017, according to the World Bank, almost all of it in west Germany. Demographic trends in east Germany pose a challenge to long-term economic stability.
- The German government plans to increase public spending, with USD 170 billion directed to infrastructure, education, technology, and housing over the next four years.
- Unemployment is at historic lows, roughly 3.4% in 2019. Despite the tight labor market, wage growth has lagged.

Political Risk: Very Low

- The current chancellor of Germany is Angela Merkel, from the Christian Democratic Union (CDU). The CDU and the Christian Social Union (CSU) make up the primary support for Merkel. The majority coalition government is comprised of these two parties and the Social Democratic Party (SPD). Under this coalition, which is set to last until the next federal elections in 2021, policy continuity is expected. Merkel has indicated that she will step down as chancellor in 2021.
- Germany is strongly in favor of the EU and one of the original 11 countries to adopt the euro as its currency in 1999.
- Thanks to its large economy and strong institutions, the country retains considerable influence both in the international community and in the European Union.
- The country supported the sanctions on Russia. Given the tensions with Russia, Germany plans to increase its armed forces from 166,500 soldiers to 200,000 by 2024. Additionally, Germany plans to increase defense spending to 2.0% of the country’s GDP by 2024, as agreed upon by all NATO members.

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 a prolonged low interest rate environment have resulted in weak profitability.
- Germany’s life insurance sector has also been subject to low profitability, owing to the persistently low interest rate environment.