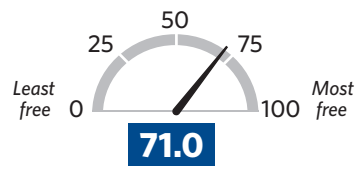


# GERMANY

## Economic Freedom Score



World Rank: **26** Regional Rank: **12**

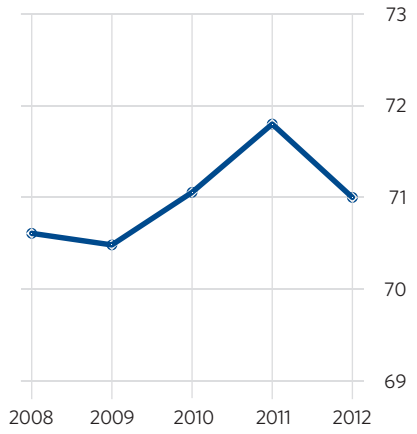
**G**ermany's economic freedom score is 71.0, making its economy the 26th freest in the 2012 *Index*. Its overall score has declined slightly because of deterioration in the management of government spending. Germany is ranked 12th out of 43 countries in the Europe region, and its overall score is significantly higher than the world average.

Despite a challenging external economic environment aggravated by the European sovereign debt turmoil, Germany continues to be one of the world's most powerful and dynamic economies. The foundations for long-term competitiveness and dynamic growth have been deeply rooted in the high quality of the judicial regime, which upholds a strong rule of law.

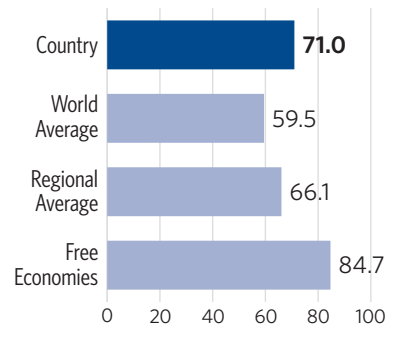
Regulatory efficiency and open-market policies enhance the benefits of Germany's vibrant engagement in global commerce. The economy has gradually emerged from the effects of the global economic slowdown, which had a significant negative impact on public finances and economic growth. The downward trend since 2003 in levels of government spending has reversed, with countercyclical and expansionary measures pushing the budget deficit to over 3 percent of GDP. As a result, Germany has embarked on an austerity program to rein in its rising fiscal deficits.

**BACKGROUND:** The election of Chancellor Angela Merkel in 2005 led to some economic reforms, but the inclusion of the Social Democrats in a grand coalition has limited the government's ability to carry out significant structural changes. Despite formation of a new coalition with the economically liberal Free Democratic Party in 2010, reforms have stalled because of Germany's almost exclusive focus on rescuing the euro. Germany has funded the lion's share of large rescue packages for fellow euro-zone member Greece. Ireland and Portugal also have received substantial rescue packages from the European Union and the International Monetary Fund, with Germany once again authorizing substantial loans. Germany is home to many world-class companies and has an enormous export industry and one of the world's highest incomes per capita.

## Freedom Trend



## Country Comparisons



## Quick Facts

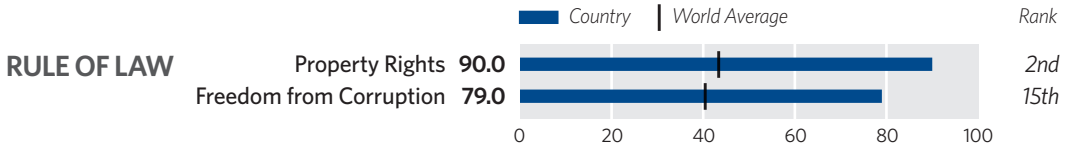
- Population:** 81.6 million
- GDP (PPP):** \$2.9 trillion
- 3.5% growth in 2010
- 5-year compound annual growth 1.1%
- \$36,033 per capita
- Unemployment:** 6.8%
- Inflation (CPI):** 1.2%
- FDI Inflow:** \$46.1 billion
- Public Debt:** 83.9% of GDP

### How Do We Measure Economic Freedom?

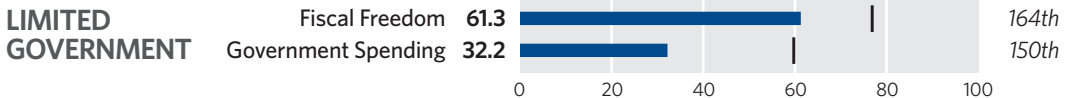
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
Data compiled as of September 2011.

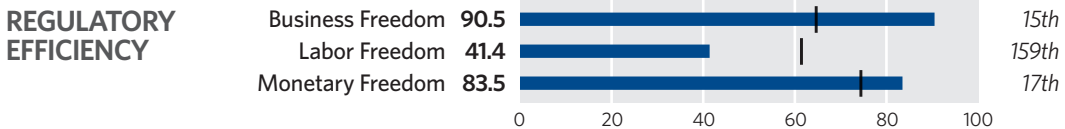
**THE TEN ECONOMIC FREEDOMS**



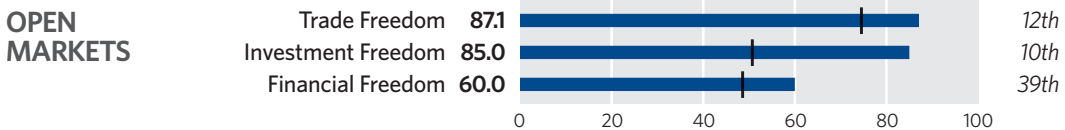
The legal framework is strong and functions well. Contractual arrangements are secure, and commercial law is strongly respected. All property rights are well protected, and the judiciary is highly professional. Protection of intellectual property rights is in accordance with world standards. Government transparency is high, and anti-corruption measures are enforced effectively.



The top income tax rate is 47.5 percent. The federal corporate tax rate is 15.8 percent (15 percent plus a 5.5 percent solidarity tax), but trade taxes raise the effective top rate to roughly 33 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden equals 37 percent of GDP. Government spending is equivalent to 47.5 percent of GDP, and the deficit has been widening, with public debt reaching 84 percent of GDP.



The efficient regulatory regime allows dynamic and innovative business formation and operation. With no minimum capital requirement, the process for starting a company is straightforward. Labor relations are sound, and employers and workers have worked cooperatively to adjust wages and work hours in response to the changing economic environment. Monetary stability is well maintained.



The trade weighted tariff rate is low, as with other members of the European Union, but non-tariff barriers raise the cost of trade. The investment regime supports dynamic growth, with foreign and domestic investors treated equally. The competitive financial sector offers a full range of services, and the traditional three-tiered system of private, public, and cooperative banks remains intact, but solvency issues have arisen due to the euro crisis.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.8	Business Freedom	+0.9	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-10.5	Labor Freedom	+0.8	Investment Freedom	0
				Monetary Freedom	-0.4	Financial Freedom	0