



Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG in Germany and the BCCG

Q4/2023

—
published January 2024



Key observations in Q4/2023

- The **German economy continues to weaken**. GDP fell by -0.1% in Q3/2023 compared to Q2/2023. In December 2023, Germany's inflation rate increased again to 3.7%. A **similar picture is emerging in the UK**. Here, too, economic output fell by -0.1% in Q3/2023 compared to Q2/2023. In November 2023, the UK inflation rate, however, decreased further, dropping to 3.9%.
- **Germany and the UK still both face economic difficulties**. The IMF is forecasting only slight growth for both countries in 2024. While Germany recorded negative growth in 2023, the economy is set to grow by 0.9% this year, while the UK economy is only expected to grow by 0.6% despite a positive result in 2023.
- The European Union and the UK agreed to give electric vehicle (EV) makers until the end of 2026 to comply with local content rules, delaying the imposition of **tariffs on EVs traded with the UK**. The extension from the previous 2024 deadline would save manufacturers and consumers up to 4.3 billion pounds (\$5.45 billion) in additional costs.
- The UK will implement a **new carbon import levy** on some products from 2027 to help to protect businesses against cheaper imports from countries with less strict climate policies. The planned carbon border adjustment mechanism (CBAM) will apply to carbon-intensive products in the iron, steel, aluminium, fertiliser, hydrogen, ceramics, glass and cement sectors.
- The **UK's Border Target Operating Model (BTOM)**, its post-Brexit system of import controls on animals, animal products, plants, and plant products, is set to come into effect on exports from the EU on 31 January 2024, and from the rest of the world (including the United States) starting 30 April 2024. BTOM will correct the existing imbalance in import controls by making import controls equally applicable to goods from the EU and goods from the rest of the world.



Impressions from the BCCG Annual Reception, London, St John's Smith Square Building, 29 November 2023
 Top left: The Rt Hon The Lord Mayor of the City of London, Michael Mainelli
 Top right: German Ambassador in UK, Miguel Berger
 Bottom: Andreas Glunz, Miguel Berger, Michael Mainelli, Mrs. Mainelli, Ilka Hartmann

News in the German-British corridor (Oct.-Dec. 2023)

Inbound from the UK to Germany	Outbound from Germany to the UK	General news in the British-German corridor
<p>Britain's Harbour Energy acquires Wintershall Dea from BASF and LetterOne The Telegraph, 21 December 2023</p>	<p>Biontech investiert Milliarde in Großbritannien Handelsblatt, 28 November 2023</p>	<p>EU verlängert zollfreien E-Auto-Export nach Großbritannien Handelsblatt, 6 December 2023</p>
<p>Shell steigt bei Öl-Raffinerie Schwedt aus. Britische Prax-Gruppe übernimmt 37,5%. Tagesschau, 15 December 2023</p>	<p>German craft brewer Brlo eyes UK market Just Drinks, 19 October 2023</p>	<p>Die Briten verlieren ihren Wohlstand Handelsblatt, 4 December 2023</p>
<p>„Wir wollen natürlich auf den deutschen Markt“ [M&G Investments] Börsen-Zeitung, 12 December 2023</p>	<p>German rail service Deutsche Bahn sells UK subsidiary Arriva to US-based infrastructure investor I Squared Capital Independent, 19 October 2023</p>	<p>Das gesplante britische Verhältnis zur Globalisierung – Großbritanniens Politik schwankt zwischen Öffnung und Abgrenzung Frankfurter Allgemeine Zeitung, 26 November 2023</p>
<p>Benko verkauft Sport-Scheck an Frasers Frankfurter Allgemeine Zeitung, 18 October 2023</p>	<p>Deutsche Bank schließt Übernahme der britischen Investment-Boutique Numis ab Börsen-Zeitung, 13 October 2023</p>	<p>Brexit wirkt sich nicht negativ auf Handel mit EU aus Börsen-Zeitung, 6 November 2023</p>
<p>Übernahme wegen Insolvenz erst einmal nicht vollzogen Capital, 30 November 2023</p>	<p>Verkaufsgespräche: Springer angeblich interessiert an Telegraph-Gruppe Handelsblatt, 2 October 2023</p>	<p>Finanzplatz London will Spitzenplatz in Europa verteidigen Handelsblatt, 26 October 2023</p>
<p>Rolls-Royce streicht bis zu 2500 Stellen Handelsblatt, 17 October 2023</p>	<p>PM unveils GBP 29.5bn of investment in new UK projects The national news, 26 November 2023</p>	<p>Brexit bereitet der Wirtschaft immer neue Sorgen ntv, 25 December 2023</p>
		<p>CBAM-Berichtspflicht für bestimmte UK-Exporte seit 1.10.2023 BCCG, Bulletin !/2024</p>

Economic trends in Germany and the UK in comparison (1/3)

Germany and the UK are # 4 and # 6 largest economies in the world

In 2022, the two countries ranked fourth and sixth globally with GDP of USD 4.08 and 3.07 trillion, respectively. Together, the GDP of Germany and the UK accounts for nearly 7% of the global economy.

Population in both countries on different trajectories

The population in Germany has reached an all-time high of 84.4 million people (due to high levels of immigration). In the UK, the population growth rate has slowed steadily since the Brexit referendum in 2016.

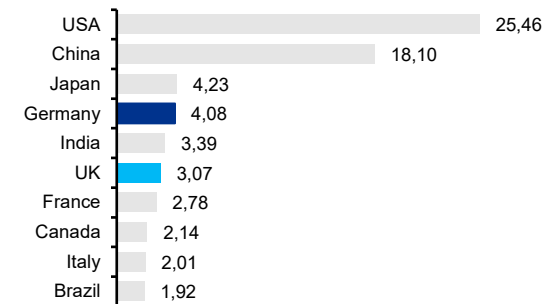
Real GDP growth weakens

The IMF lowered its growth forecasts for both the UK and Germany. While the UK was able to avoid a recession in 2023, the country's economy was also only able to record minimal growth. Both economies are also likely to recover only slowly in 2024.

Unemployment remains low

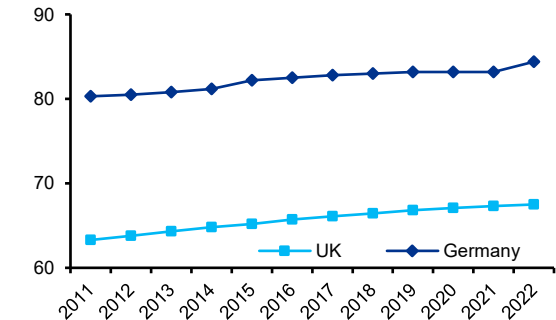
The labour markets remain tight in both countries, with many employers facing hiring problems. Nevertheless, both countries have relatively low unemployment rates compared to the rest of the EU.

Largest economies by GDP, 2022 (in USD trillion)



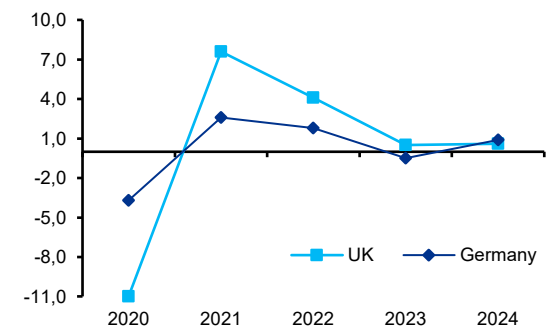
Source: IMF 2023

Population (in million)



Source: Statistisches Bundesamt, United Nations

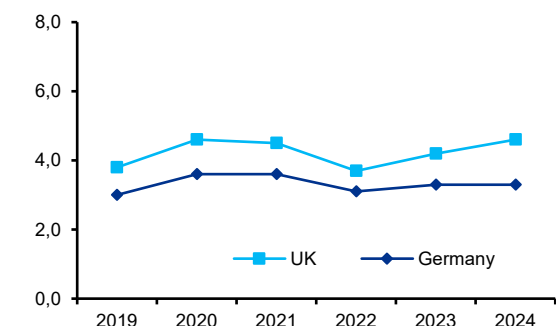
Real GDP growth (in %)



Source: IMF, Oct. 2023

Projections (Oct. 2023)

Unemployment rate (in %)



Source: IMF, Oct. 2023

Projections (Oct. 2023)

Economic trends in Germany and the UK in comparison (2/3)

Cost of living rises

With prices soaring, the cost of living is increasing in the UK and Germany. London clearly outstrips Munich as the #1 city in terms of living costs. Also overall, living costs in bigger cities of the UK are exceeding those in Germany.

GBP strengthens against EUR

GBP gained against the EUR at the start of 2024 since the UK economy was growing in the final month of 2023. Expected interest rate cuts in the U.S., on the other hand, strengthened the EUR against the USD in Q4/2023.

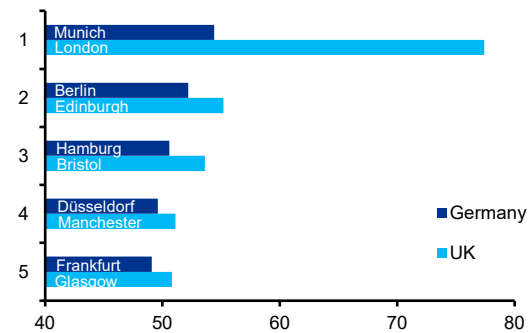
Stock markets

The end of interest rate hikes and the expectation of a possible interest rate cut in 2024 are having a positive effect on the German DAX40 index. In the UK, on the other hand, the rise in bond yields, among other things, has a dampening effect on the FTSE 100.

Inflation declines significantly

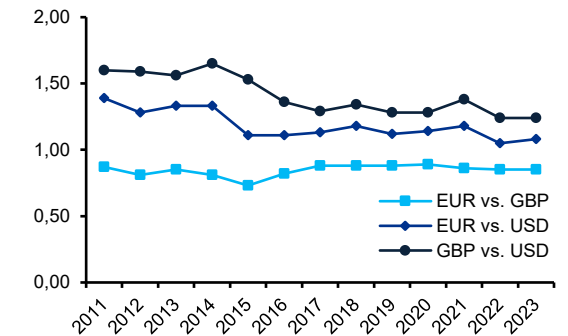
The central banks' high interest rates and falling energy and food prices are causing significantly decreasing inflation rates in both the UK and Germany. Nevertheless, both countries are still well above the 2% target.

Cost of living plus rent index



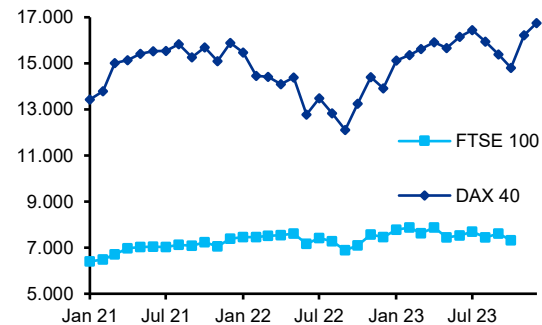
Source: Numbeo (Jan. 2024)

Exchange rates



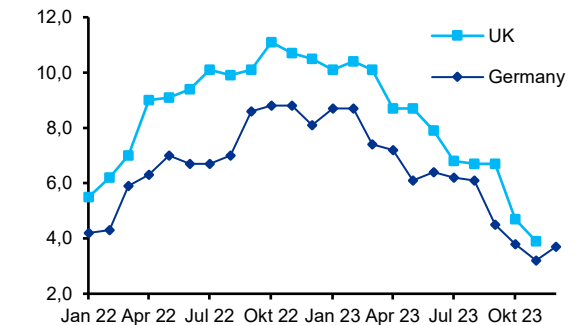
Source: Exchange Rates UK

DAX 40 and FTSE 100



Source: FTSE, Ariva

Inflation rate/CPI (in %)



Source: Office for National Statistics, Statistisches Bundesamt

Economic trends in Germany and the UK in comparison (3/3)

Foreign trade recovering after Brexit

Non-tariff trade restrictions were introduced after Brexit which made trade between Germany and the UK more expensive. The result was a strong decline in exports from Germany to UK between 2018 and 2021. Imports from UK to Germany remained however rather stable since energy imports at rising prices had a compensating effect.

In 2022, the sum of imports plus exports rose slightly for the first time, but much below the pre-Brexit level. Since 2016 the UK has slipped from 5th to 11th place among Germany's most important trading partners. Germany, on the other hand, still is the UK's second-largest trading partner in 2022.

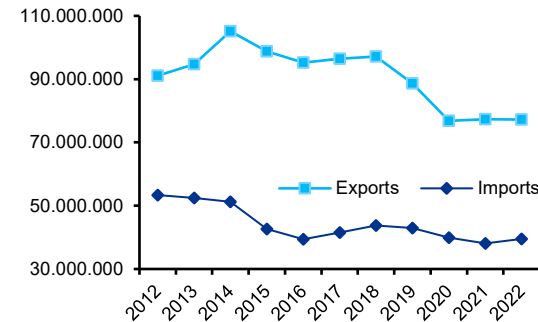
Inward FDI in the UK appears to stabilise

From the 1970s until Brexit, the UK consistently attracted more FDI than other comparable economies. After the Brexit referendum and until 2018, FDI inflows to the UK plummeted. Since then, FDI inflows have recovered and have almost returned to pre-Brexit-levels. Inward FDI flows to Germany have remained relatively stable over the past decade.

Greater fiscal flexibility in Germany than in the UK

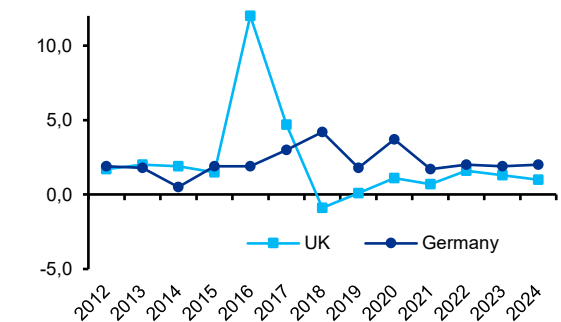
While the level of public debt to GDP in Germany declined steadily until the outbreak of the pandemic and stood at ~67% in 2022, public debt to GDP in the UK has risen further, reaching ~105% in 2022.

Foreign trade Germany-UK (from German perspective) (in USD '000)



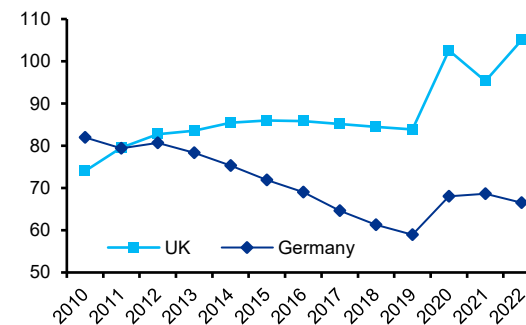
Source: Statistisches Bundesamt

Inward FDI flow/GDP (in %)



Source: IMF, International Financial Statistics; Office of National Statistics
Projections

Public debt (% of GDP)



Source: Eurostat, IMF

M&A deals from the UK to Germany

Target country: Germany
Buyer country: United Kingdom
Date announced: Last 3 months (Oct. 2023–Dec. 2023)

Rank value: Greater than or equal to USD 5 million
Deal status: Completed

Date announced	Rank value (USD million)	Target full name	Target industry	Buyer full name	Buyer industry
30 Nov. 2023	16.45	Banxware GmbH	High Technology	Investor Group	Financial services/PE
13 Nov. 2023	5.45	Filu GmbH	Consumer Products and Services	Investor Group	Financial services/PE
26 Oct. 2023	6.87	BayWare AG	Energy and Power	The Life Programme	Financial services/PE
24 Oct. 2023	13.87	oxolo GmbH	High Technology	Investor Group	Financial services/PE
12 Oct. 2023	6.90	Lanch GmbH	High Technology	Investor Group	Financial services/PE
11 Oct. 2023	31.81	Orbem GmbH	Consumer Products and Services	Investor Group	Financial services/PE

Source: Refinitiv

Greenfield investments from the UK to Germany (1/2)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Dec. 2023	Cube Green Energy	Renewable energy	New	Unknown
Dec. 2023	Liberis	Financial services	New Funding/Resources for Expansion	Unknown
Nov. 2023	Logicor	Real estate	New	90.2
Nov. 2023	Freedom Scripted	Communications	New	0.5
Nov. 2023	OCO Global	Business services	Expansion	0.5
Nov. 2023	GLS Germany	Transportation & Warehousing	New	59.9
Nov. 2023	Litica	Financial services	New	3.7
Nov. 2023	Premier Group Recruitment	Business services	New	0.5
Nov. 2023	Cera	Software & IT services	New Investment Strategy	Unknown
Nov. 2023	Doccla	Software & IT services	New Funding/Resources for Expansion	Unknown
Nov. 2023	Second Chance	Consumer products	New	0.2
Nov. 2023	Vodafone Germany	Communications	New	129.3

Source: fDi Markets

Greenfield investments from the UK to Germany (2/2)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Oct. 2023	Smith & Nephew	Medical devices	New	4.0
Oct. 2023	Archetype (Text 100)	Business services	New	0.5
Oct. 2023	Alexander Battery Technologies	Electronic components	New	0.8
Oct. 2023	Titan Tools	Industrial equipment	Expansion	16.1
Oct. 2023	Achetype	Business services	New	0.5
Oct. 2023	Campbell Lutyens	Financial services	New	7.8
Oct. 2023	Trailmix Games	Software & IT services	New	4.0
Oct. 2023	Octopus Energy	Renewable energy	Considering Project (New or Expansion)	1050.0

Source: fDi Markets

M&A deals from Germany to the UK

Target country: United Kingdom
Buyer country: Germany
Date announced: Last 3 months (Oct. 2023–Dec. 2023)

Rank value: Greater than or equal to USD 5 million
Deal status: Completed

Date announced	Rank value (USD million)	Target full name	Target industry	Buyer full name	Buyer industry
11 Dec. 2023	307.38	SumUp Payments Ltd	Consumer Products and Services	Investor Group	Financial services/PE

Source: Refinitiv

Greenfield investments from Germany to the UK (1/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Dec. 2023	BayWa r.e.	Electricity	Expansion	Unknown
Dec. 2023	DHL	Logistics, Distribution & Transportation	Expansion	Unknown
Dec. 2023	DHL eCommerce (DHL Global Mail)	Logistics, Distribution & Transportation	New	8.0
Dec. 2023	DHL eCommerce (DHL Global Mail)	Logistics, Distribution & Transportation	Expansion	6.4
Dec. 2023	PHS Home Solutions	Shared Services Centre	New	Unknown
Dec. 2023	ANNEA		New Funding/Resources for Expansion	Unknown
Dec. 2023	Willy Bogner	Retail	New	Unknown
Nov. 2023	Xtrafit	Retail	New	39.0
Nov. 2023	Leverest	Sales, Marketing & Support	New	3.6
Nov. 2023	VSHosting	ICT & Internet Infrastructure	New	170.2
Nov. 2023	Hylmpulse Technologies	Research & Development	New	9.8

Source: fDi Markets

Greenfield investments from Germany to the UK (2/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Nov. 2023	Fresenius Medical Care	Healthcare	New	7.4
Nov. 2023	Siemens Mobility	Non-automotive transport OEM	New/Expansion	9.3
Nov. 2023	Aldi	Food & Beverages	New	6.8
Nov. 2023	TCG Corporate Finance	Financial services	New	9.4
Oct. 2023	Kilimanjaro Live	Leisure & entertainment	New	1.5
Oct. 2023	BASF	Pharmaceuticals	Expansion	13.7
Oct. 2023	ARTEC GmbH	Space & defence	New	15.6
Oct. 2023	Heidelberg Materials UK (Hanson UK)	Building materials	New	29.0
Oct. 2023	Bentley Motors	Automotive OEM	Expansion	155.9
Oct. 2023	Jung von Matt	Business services	New	3.5
Oct. 2023	HealthCaters	Software & IT services	New Funding/Resources for Expansion	Unknown

Source: fDi Markets

Greenfield investments from Germany to the UK (3/3)

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Oct. 2023	Divizend	Financial services, Software & IT services	New Funding/Resources for Expansion	Unknown
Oct. 2023	Lanch	Software & IT services	New Funding/Resources for Expansion	Unknown
Oct. 2023	BayWa r.e. UK	Renewable energy	New	18.0
Oct. 2023	Hugo Boss	Textiles	New	8.6
Oct. 2023	Draeger	Industrial equipment	Expansion	2.9

Source: fDi Markets

Upcoming events in the German-British corridor

Title	Date	Location
ECB – Interest Rate Decision	25 January 2024	Frankfurt, Germany
20th BCCG New Year's Conference & Reception 2024	30 January 2024	Berlin, Germany
Bank of England – Interest Rate Decision	1 February 2024	UK
Munich Security Conference 2024	16 – 18 February 2024	Munich, Germany

Statement of the quarter

In December 2023, the Financial Policy Committee of the Bank of England set out its views on UK financial stability and what it is doing to remove or reduce any risks to it.

“Conditions remain challenging, given increased geopolitical tensions and uncertainties over growth, inflation and interest rates globally. Long-term interest rates in the UK, US and Germany have risen significantly this year. The adjustment to higher interest rates continues to make it more challenging for households and businesses in advanced economies to service their debt. So far, UK borrowers and the financial system have been broadly resilient to this, although the full effect of higher interest rates has yet to come through. Meanwhile the prices of housing and commercial real estate have been falling in many countries.

The UK banking system remains well capitalised, and results from the Bank of England’s 2022/23 stress test suggests that the major UK banks have the capacity to support households and businesses, even if economic and financial conditions worsen. For example, the UK banking system would be resilient to a global recession, including severe stresses to property prices. Risks in the system of market-based finance could increase existing challenges, and the committee is working with other UK authorities and globally to tackle these.”



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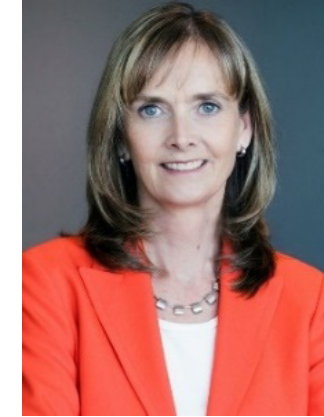
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