



# Macroeconomic trends in the British-German corridor

Quarterly newsletter of KPMG  
in Germany and the BCCG

Q3/2023

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# Key observations in Q3/2023

- The German economy is treading water, with GDP from April to June remaining at the same level as in the previous quarter. In August 2023, Germany's inflation rate decreased slightly to 6.1%. In comparison, the UK economy recorded negligible GDP growth of 0.2% in Q2/2023 compared to Q1/2023. In August 2023, the UK inflation rate also decreased slightly, dropping further to 6.7%.
- Germany and the UK both face economic difficulties. While the IMF forecasts that economic growth will decline by 0.3% in Germany, the only contraction among all major economies, it expects growth of 0.4% for the United Kingdom.
- Rising wages in the UK are a concern for the Bank of England, which worries that strong pay growth might be fuelling inflation. According to figures from the UK's Office for National Statistics, annual pay growth including bonuses averaged 8.5% between May and July 2023.
- In the UK, a very real crisis is brewing for millions of individuals in the coming decades in terms of securing an adequate income in retirement. The defined contribution pension of 8% will not provide the safety net implied by the word "pension". By comparison, contributions to the statutory pension scheme in Germany currently amount to 18.6% of gross salary.
- The UK has presented its plan for a Border Target Operating Model, with the first changes due to come into effect at the end of October 2023. The plan includes permanent relief for imports of food, with the aim of ensuring that customs controls on goods from the EU are as complete as possible going forward. The first and second stages include controls on products of animal origin and plant products (so-called SPS goods), while the third stage concerns safety declarations. All these changes associated with the customs regime are to be fully integrated and applied to goods from the EU by the end of 2024.



BCCG Sponsoring Members Dinner, Berlin, 5 September 2023  
 Photo: Jürgen Sendel, Pictureblind  
 From left to right: Ilka Hartmann, Michael Schmidt, H.E. Jill Gallard CMG CVO,  
 S.E. Miguel Berger

# News in the German-British corridor (July–September 2023)

Inbound from the UK to Germany	Outbound from Germany to the UK	General news in the British-German corridor
<b>Exscientia</b> announces AI drug discovery collaboration with Merck KGaA Bloomberg, 20 September 2023	<b>BMW</b> commits to MINI Plant Oxford Frankfurter Allgemeine Zeitung, 11 September 2023	UK postpones <b>import controls</b> for EU goods until 2024 Frankfurter Allgemeine Zeitung, 29 August 2023
<b>BP</b> commits to Germany with \$11 billion low-carbon investment push Reuters, 13 September 2023	<b>Aldi</b> opens 1,000th UK store as discounter eyes further expansion Bloomberg, 7 September 2023	Construction starts on <b>first UK-Germany power cable</b> S&P Global, 19 July 2023
Mission Turnaround [ <b>Vodafone</b> ] Frankfurter Allgemeine Zeitung, 29 August 2023	<b>Holy</b> ready to shake up UK soft drinks as it raises €10.5m for expansion The Grocer, 24 August 2023	UK <b>outpaced</b> by Germany on <b>emissions cuts</b> since Paris accord Financial Times, 16 July 2023
<b>Barclays</b> said to ready sale of German consumer finance business Bloomberg, 13 July 2023	<b>CropEnergies</b> invests EUR 100 million in UK production site Ethanol Producer Magazine, 3 August 2023	Sunak taps Scholz to help <b>delay looming EU tariff on EVs</b> Bloomberg, 6 July 2023
Battling Brexit, some British firms turn to invest in Europe [ <b>Farrat</b> to invest in Germany] Reuters, 5 July 2023	Bristol insurance firm DAS UK acquired by German corporation [ <b>ARAG Group</b> ] Business Live, 17 July 2023	Major agreement to deliver <b>new cancer vaccine trials</b> [ <b>BioNTech</b> ] UK Government, 5 July 2023

# 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.

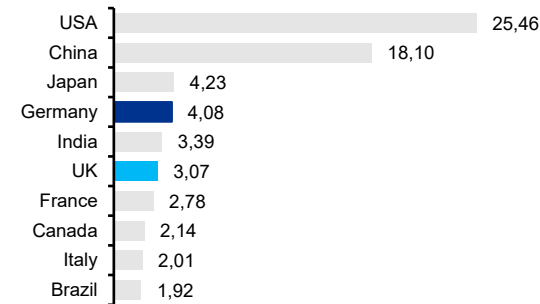
## Real GDP growth weakens

Growth in Germany is projected to be negative in 2023. By contrast, the outlook for the UK has improved, and the country could record slight growth. In 2024, both countries are expected to recover slowly.

## Unemployment remains low

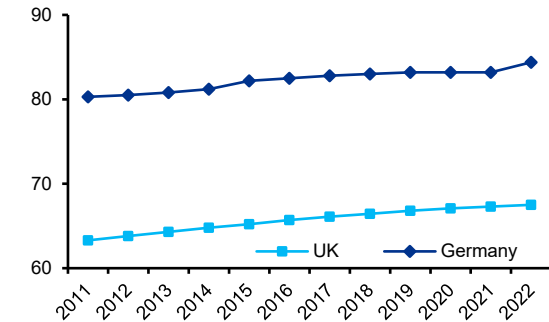
The labour markets remain tight in both countries, with many employers facing hiring problems. Low rates of unemployment and pay edging upwards are fuelling inflation. However, the weak economy in Germany is slowly making itself felt on the labour market.

### Largest economies by GDP, 2022 (in USD trillion)



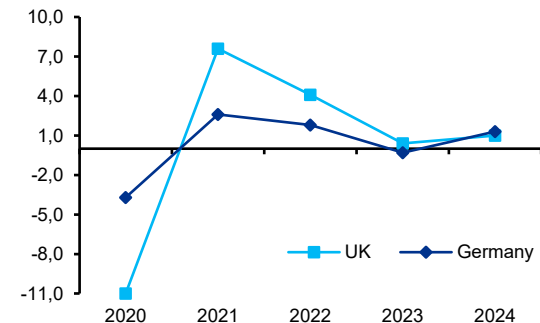
Source: IMF 2023

### Population (in million)



Source: Statistisches Bundesamt, United Nations

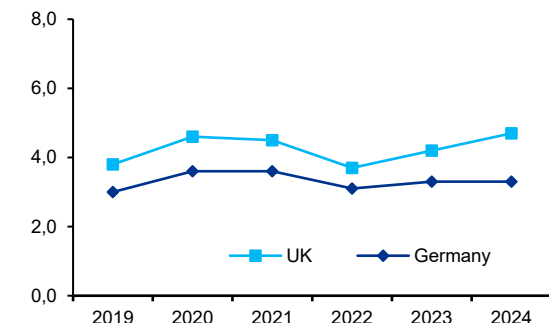
### Real GDP growth (in %)



Source: IMF, July 2023

Projections (July 2023)

### Unemployment rate (In %)



Source: IMF, April 2023

Projections (April 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. Considering the #2 to #5 cities, however, living costs in German cities exceed those in the UK.

## GBP weakens against EUR and USD

The decision by the Bank of England (BoE) to keep interest rates where they are for the time being weakened the British currency. The euro is also losing ground against the US dollar due to the tense economic situation in Europe.

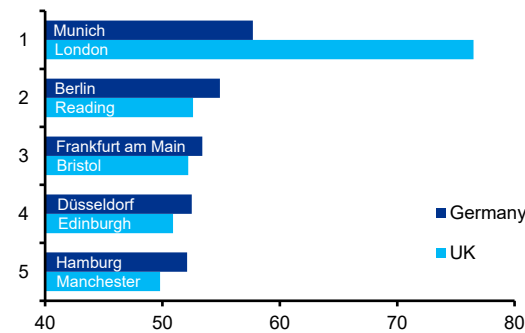
## Stock markets

The stock markets in the UK reacted positively to the BoE's latest interest rate decision. Germany's benchmark index, the DAX, was lethargic in its response to the tense economic situation in Germany.

## Inflation rates decrease slightly

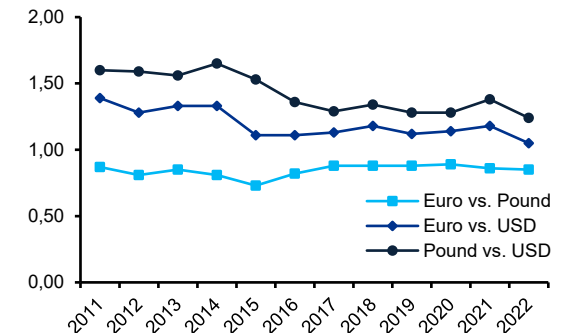
Persistently high food prices and a renewed rise in energy prices are causing the inflation rate in Germany to remain at a relatively high level. In the UK, decelerating food prices helped drive a surprise fall in inflation in August, with prices now rising at their slowest rate in 18 months.

Cost of living plus rent index – Top 5 cities



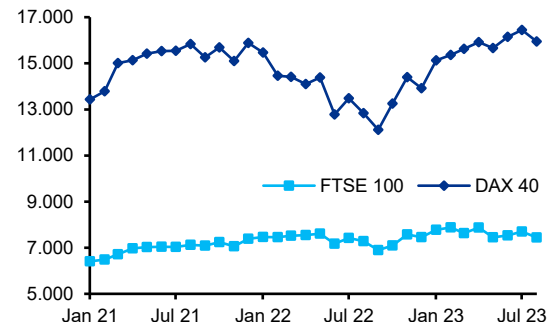
Source: Numbeo

Exchange rates



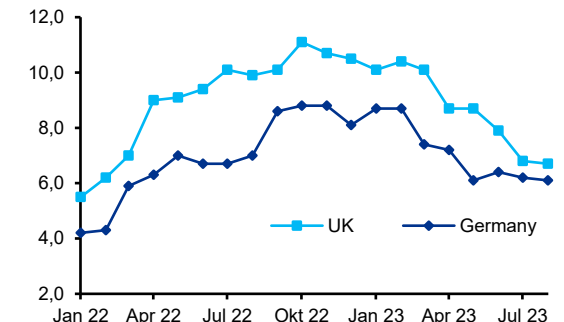
Source: Bundesbank, FED

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

Brexit made it significantly more expensive to trade between Germany and the UK, and non-tariff trade restrictions were introduced. The result was a marked decline in bilateral trade between 2018 and 2021.

In 2022, the foreign trade volume rose again for the first time. However, since 2016 the UK has slipped from 5<sup>th</sup> to 11<sup>th</sup> place among Germany's most important trading partners. Germany, on the other hand, was still the UK's second-largest trading partner in 2022.

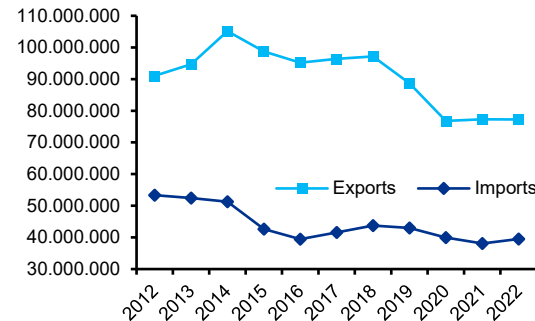
## Inward FDI in the UK appears to stabilise

From the 1970s until Brexit, the UK consistently attracted more FDI than other comparable economies. After the Brexit referendum, FDI inflows to the UK plummeted between 2016 and 2018. 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

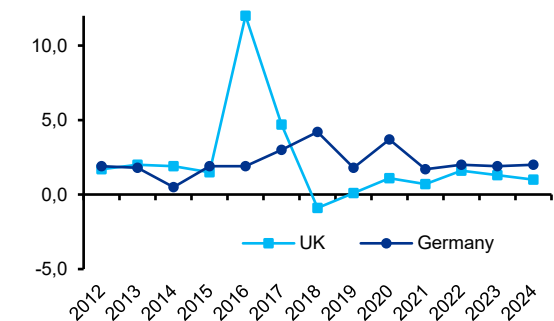
While the level of public debt to GDP in Germany declined steadily until the outbreak of the pandemic and stood at ~67% in 2022, public debt to GDP in the UK has risen further, reaching ~105% in 2022.

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



Source: Statistisches Bundesamt

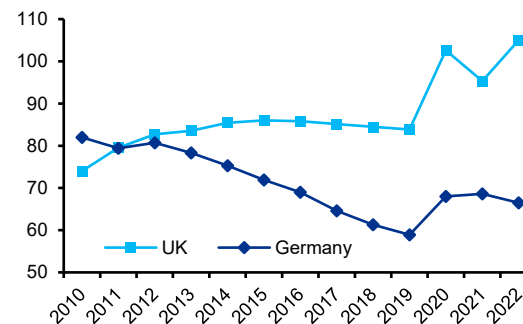
Inward FDI flow/GDP  
(in %)



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 (July 2023–September 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
23 Aug. 2023	13.45	Anylab GmbH	High technology	Investor Group	Financial services/PE
21 Aug. 2023	21.73	Finiata GmbH	Financial services	Fasanara Capital Ltd	Asset management
9 Aug. 2023	30.00	deepset GmbH	Media and entertainment	Investor Group	Financial services/PE
18 July 2023	55.00	Neura Robotics GmbH	Industrials	Investor Group	Financial services/PE
13 July 2023	279.43	ASAP Holding GmbH	High technology	HCL Technologies UK Ltd	High technology

Source: Refinitiv



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

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Sept. 2023	McGill and Partners	Financial services	New	Unknown
Aug. 2023	Servium	Software & IT services	New	Unknown
Aug. 2023	Verdion (Helios Europe)	Real estate	New	108.73
Aug. 2023	European Metal Recycling	Metals	New	Unknown
Aug. 2023	Sharp Brains	Software & IT services	New	Unknown
Aug. 2023	Virmati Energy (Field Energy)	Electronic components	New funding/resources for expansion	Unknown
July 2023	Carbon13	Financial services	New	7.8
July 2023	SapienceS2P	Software & IT services	New	13.1
July 2023	Retail Insight	Software & IT services	New	1.5
July 2023	RED Global (Red Commerce)	Business services	New	0.5
July 2023	ITM Power GmbH	Industrial equipment	Expansion	0.7

Source: fDi Markets



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

Date	Investor	Industry sector	Type	Capital investment (in USD million)
July 2023	Advanced Supply Chain	Transportation & warehousing	New	76.23
July 2023	Populus Select	Business services	New	0.5
July 2023	Ergon Associates	Business services	New	0.3
July 2023	ABL Group	Business services	New	0.5
July 2023	Arup Group	Business services	New	0.5
July 2023	G2V Recruitment Group	Business services	New	0.5
July 2023	Curly Films	Communications	New	0.5

Source: fDi Markets

# M&A deals from Germany to the UK

**Target country:** United Kingdom  
**Buyer country:** Germany  
**Date announced:** Last 3 months (July 2023–September 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
21 Aug. 2023	50.92	3fbio Ltd	Healthcare	Investor Group	Financial services/PE
10 July 2023	116.81	TM Group (UK) Ltd	High technology	AURELIUS Equity Opportunities SE & Co. KGaA	Financial services/PE

Source: Refinitiv

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

Date	Investor	Industry sector	Type	Capital investment (in USD million)
Sept. 2023	Rehau	Plastics	New	Unknown
Sept. 2023	Lidl GB	Food & beverages	New	371.7
Sept. 2023	RWE	Renewable energy	New	Unknown
Sept. 2023	Holy	Food & beverages	New funding/resources for expansion	Unknown
Aug. 2023	Siemens Mobility	Non-automotive transport OEM	Expansion	Unknown
Aug. 2023	Evri	Transportation & warehousing	Expansion	47.92
Aug. 2023	Kinderzimmer	Business services	New	Unknown
Aug. 2023	Aldi	Food & beverages	Expansion	Unknown
Aug. 2023	Rocket Factory Augsburg	Space & defence	New	32.93
July 2023	Ensus UK	Food & beverages	Co-location	81.48
July 2023	Sartorius Stedim Biotech	Medical devices	Expansion	16.1

Source: fDi Markets

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

Date	Investor	Industry sector	Type	Capital investment (in USD million)
July 2023	VEKA	Plastics	Expansion	21.5
July 2023	Brenntag UK & Ireland	Chemicals	Expansion	12.9
July 2023	VEGA Controls	Industrial equipment	Expansion	15.2
July 2023	DB Schenker	Transportation & warehousing	New	74.3

Source: fDi Markets



# Upcoming events in the German-British corridor

Title	Date	Location
ECB – Interest Rate Decision	26 October 2023	Athens, Greece
AI Safety Summit 2023	1–2 November 2023	Buckinghamshire, UK
Bank of England – Interest Rate Decision	2 November 2023	UK
BCCG – Meet the President	29 November 2023	London, UK

# Statement of the quarter

## Now is the time to intensify UK-German energy cooperation!

*"The last 18 months have painfully reminded us that secure energy supply must not be taken for granted. At the same time, the devastating effects of global climate change require us to redouble our efforts to transition our economies to Net Zero.*

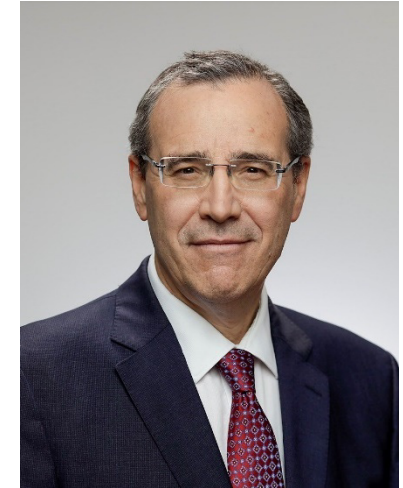
*Providing secure, clean and affordable energy is the challenge of the moment.*

*The UK and Germany are working closely together to future-proof our energy systems, with the UK's huge potential for offshore wind and German industry's strong demand for energy making for a great match. Against the backdrop of evolving energy needs, bilateral cooperation has intensified lately.*

*In July, construction started on the major £2.4bn NeuConnect project, which will become the first ever UK-German energy link and one of the largest interconnectors in the world. Allowing up to 1.4GW of electricity to flow over a distance of 725km via land and subsea cables, it will not only help to boost energy security and resilience in both countries, but also support the integration of renewable energy sources.*

*But there is more: in late September, the UK and Germany signed a joint Declaration of Intent on a UK-German hydrogen partnership. The aim is to boost hydrogen cooperation and accelerate production of and trade in hydrogen - a critical source of energy in a net zero world.*

*We must make sure these important milestones are only the beginning. Further intensification of Anglo-German energy cooperation will not only benefit both our economies, but also deepen our relationship in the strategically important field of energy security. Let us seize this opportunity!"*



**Miguel Berger**

Ambassador of the  
Federal Republic of  
Germany to the United  
Kingdom

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