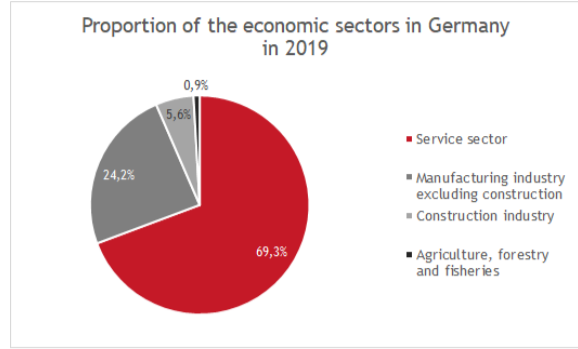




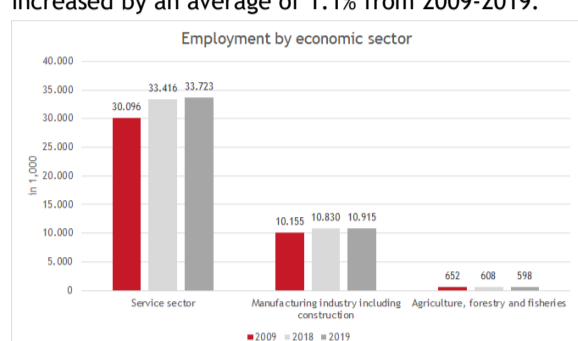
# THE ECONOMIC SITUATION AND INVESTMENT CLIMATE IN LIGHT OF COVID-19

## I. Initial situation - the German economy

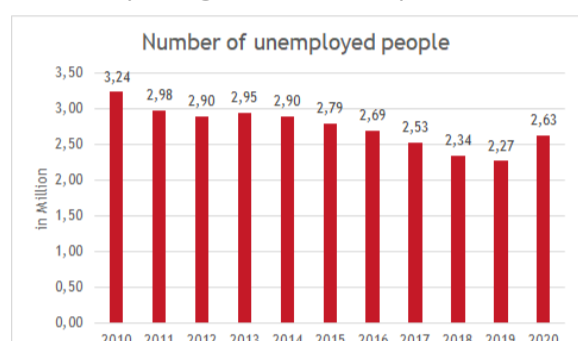
The German economy can easily be divided into four sectors, including the service sector (69.3%), the manufacturing industry excluding construction (24.2%), the construction industry (5.6%) as well as agriculture, forestry and fisheries (0.9%). Since 1991 the share of the service sector as measured by the proportion of the Gross Value Added has strongly increased.



On the other side, the sector covering agriculture, forestry and fisheries recorded a significant reduction by more than half of its total size. Therefore, over the years, a transformation to a so called **service economy** is visible, whereby the manufacturing as well as the construction sector still occupy a relatively high share of the economy. The structure of the German economy can also be illustrated on the basis of the number of persons employed. The workforce in the service sector has increased by almost 4,000,000 employees within ten years (2009-2019). Thereby, the employment rate increased by an average of 1.1% from 2009-2019.

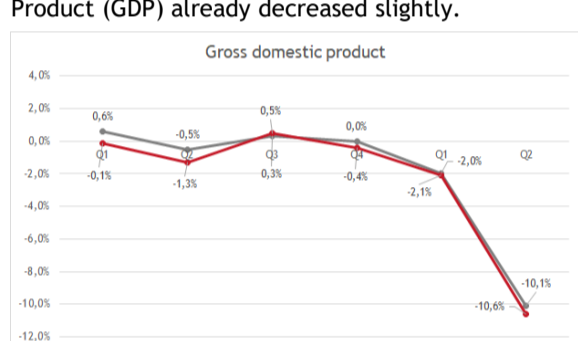


In contrast, the area of agriculture, forestry and fisheries registers a decline of the employment rate by an average of -0.9% from 2009-2019. A closer look at the number of unemployed people in Germany displays that the unemployment rate steadily decreased from 2010 onwards. On average from 2010 until 2020 the unemployment rate declined by an average of -2.1%. The increase in 2020 can be justified by the Covid-19 pandemic and the corresponding economic consequences.



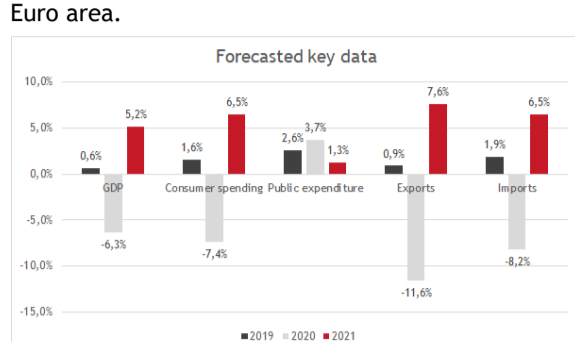
## II. The economic situation during COVID-19 and beyond

In the first quarter of 2020 (Q1) the Gross Domestic Product (GDP) already decreased slightly.



A significant reduction of -10.1% was observed in Q2 of 2020 connected to the **shutdown** in April. According to the Federal Statistical Office of Germany the recovery process in Q3/Q4 of 2020 and beyond will be slow and prolonged. On the other hand, a **production increase** can be registered in May in most sectors in Germany, e. g. in the manufacturing industry +10.3% or in retail +13.9%. But, despite the overall economic recovery, a negative change of the GDP cannot be avoided in the short-run. The economic development and activity in 2020 is primary negatively affected as shown in the changes of key data. **GDP and exports** decreased by -6.3% and -11.6% respectively compared to the preceding year. An unfavorable development can also be recorded in the area of **consumer spending** with a reduction of -7.4% compared to 2019. The negative shift is moreover connected to the development of the number of persons employed in Germany, with 370,000 less employees than in the previous year. In the short-run, it must be noted that **growth** is registered but capacities are still heavily underutilized (the industrial production in May was about 75% of the pre-Corona level). Despite the poor development, the regeneration process of the German economy is very dynamic.

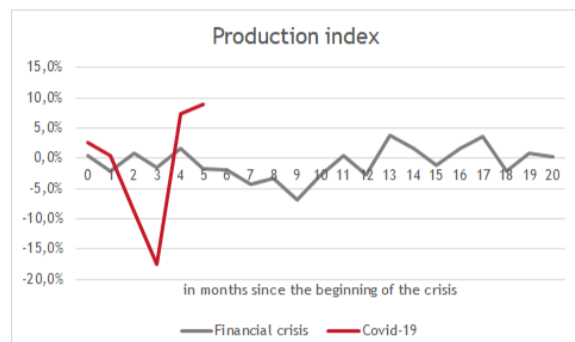
**Foreign demand** is a very important factor for the further economic development. Thereby the export of goods in May increased by 11.6%. It must be noted, that trade to severely affected countries (e. g. UK or U.S.) develops more weakly than to other countries (e. g. China). Moreover, the **foreign supply** increases in regard to countries from the Euro area.



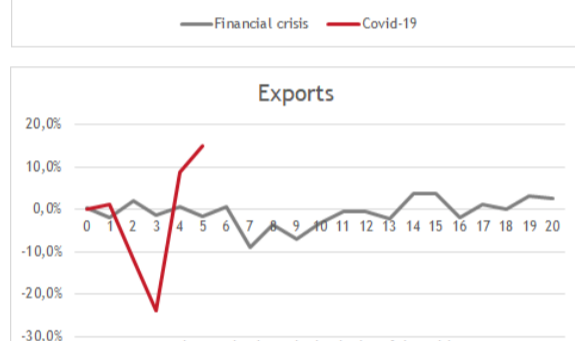
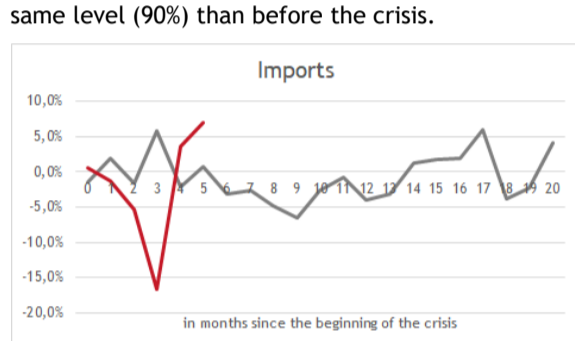
But countries outside the European Union underline the risk of the global economic situation for the German economy. To counteract the negative changes and to push the German economy, the government introduced incentives to increase consumption of goods and services through **temporary tax reductions** lasting from the 1st of July 2020 until the 31st of December 2020.

The European Union also passed a plan called **“Next Generation EU”** worth EUR 750 billion covering the years 2021-2024. The plan combines three main targets, namely supporting member states to recover, kick-starting the economy and helping private investment as well as learning the lessons from the crisis by implementing a strategic investment facility and a new solvency support instrument.

Often a comparison with the financial crisis in 2008/2009 is pursued in public discussions. The following charts illustrate the development of the financial crisis from April 2008 until December 2009 compared to the COVID-19 crisis lasting from January 2020 until now with respect to the production index, imports as well as exports. Visible in all graphs is the so-called **“V”-effect**.

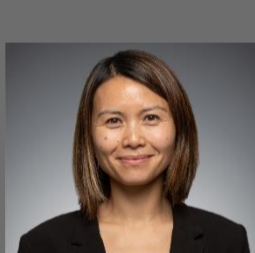


The operating figures did not stagnate during the crisis; instead an above-average increase of the production index, imports as well as exports is identifiable shortly after the shutdown in April. An example is the automotive industry where the orders received in June 2020 are almost on the same level (90%) than before the crisis.



## III. Investment climate in Germany

During the beginning of the pandemic, a **higher demand for credits** meets rising credit hurdles. The number of small and medium sized enterprises (SME's) conducting credit negotiations with banks rose from 25.0% to 31.5% in Q2 2020. The German government has since introduced many measures to provide extra liquidity to the economy in order to battle with Covid-19, this has helped to ensure that the banks are less reluctant to grant loans in the current crisis. In turn, this has supported the improvement of the economy shown in the latest months. To stabilize the investment market, specific **intensifications** were passed. Thereby, acquisitions of shares in the health sector by buyers outside the European Union and the European Free Trade Association (EFTA) must now be reported to the Federal Ministry of Economics if the shareholding threshold exceeds 10%. Furthermore, the Federal Ministry of Economics can still examine and retroactively prohibit such transactions up to five years after the conclusion of the contract, without any notification. This notification threshold is already applicable in other sectors. The exceeding of 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights in a German listed company must be reported by the investor to the company itself and the Federal Financial Supervisory Authority (BaFin).



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