

COUNTRY PROFILE:**GERMANY****DATED:****APRIL 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

GCIC Rating & Comment	1A; We are open for cover without restrictions in this market where we have large exposure. Although our experience is favourable it is not claims free.
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Recent Political Highlights

- ❑ Angela Merkel of the conservative Christian Democratic Union (CDU) was sworn in as Germany's first female chancellor in late November 2005, taking over from Gerhard Schroeder who held the post since 1999. The next elections are scheduled for September this year.
- ❑ The EIU expects the CDU to emerge as the strongest party in the September 27 election and expects Chancellor Angela Merkel to win a second term. Tensions between coalition partners, the CDU and the Social Democratic Party (SDP) are expected to increase as both parties seek to differentiate themselves in the run-up to the general election.
- ❑ Voter support for Germany's SDP fell to a two-month low of 23% in April. Chancellor Merkel's CDU's support was steady at 35%, while the pro-business Free Democrats polled 16%. The opposition anti-capitalist Left party polled 11% and the Greens 10%. The majority of German voters back a proposal to raise taxes on higher income earners made by the SDP. The CDU says it may eliminate the 'solidarity tax' a levy made on all German incomes since reunification to finance infrastructure in the former communist east. Such a tax cut would take place when economic recovery returns and would mean a 5.5% tax cut.

Recent Economic Highlights

- ❑ For a while it looked as if Germany could escape the full force of the financial crisis, but since September 2008 the German economy has experienced a sharp drop in business confidence because of a steep decline in foreign orders, which has inevitably led companies to postpone planned investments. Industrial orders slipped 8% in January and output dropped 7.5% in the same month.
- ❑ Europe's largest economy, began to contract in Q2'08 as the strong euro, high oil prices, tighter credit markets and slowing growth took their toll on Germany's export-dependent economy; the decline in real GDP is expected to continue until 2010. After GDP growth of 1.3% in 2008, some economists forecast GDP could shrink by 7% in 2009. The German government expects a much higher contraction than its previous forecast of 2.25% as the global crisis saps export demand and curbs investment. The OECD expects the economy to shrink 5.3% this year after GDP fell 2.1% in Q1'09. The German government's offer to pay €2,500 for trading in cars at least nine years old supported private consumption. A 67% decline in the price of crude oil since last July pushed German inflation to the lowest level in almost 10 years, with prices rising just 0.4% from a year earlier.
- ❑ German investor confidence rose to the highest level since June 2007 in April after stock markets rallied on government and central bank efforts to revive growth. The index of investor and analyst expectations rose to 13 from -3.5 in March. European stocks posted their sixth weekly consecutive advance in mid-April as speculation grew that the worst of the financial crisis has passed.
- ❑ Unemployment rose again in March to 3.6 million, reaching 8.6%. Germany is expected to lose a million jobs this year, pushing the number of unemployed above 4 million. The OCED expects the jobless rate to rise to 10.8% in 2010 with 4.7 million unemployed.
- ❑ Two fiscal stimulus programs agreed by Chancellor Angela Merkel's government since last year have not solved 'the problems of the banking sector' that threaten to grow into a 'full-blown credit squeeze' if they aren't tackled as a priority. Last year, the government announced plans to spend €80bn to stimulate demand and made €500bn available to rescue banks. It has created a €100bn 'Germany Economy Fund' to provide credit and loan guarantees to non-financial companies. The OECD thinks the government should increase pressure on banks and possibly 'force them to accept state aid' or be nationalised as a last resort. Chancellor Angela Merkel has stood firm in rejecting any new German economic stimulus program even as the IMF said the recession is worse than previously though and called for measures to spur demand. The coalition said it won't expand its €80bn stimulus agreed under two separate programs.
- ❑ The OCED expects Germany's budget deficit to rise fuelled by government stimulus spending and falling tax revenue. The state deficit will rise to 4.5% of GDP this year and 6.8% of GDP in 2010.
- ❑ Germany's Reichstag in Berlin is set to become the first parliamentary building in the world to be powered 100% by renewable energy. A roadmap published by the German Federal Ministry for the Environment sketches out the route the world's largest exporter plans to take to switch to renewable energy and add 800,000-900,000 new jobs by 2030. In 2008 the percentage of renewables in Germany's primary energy consumption was 7.3% but that figure is predicted to increase to 33% by 2020.

Latest Trade Developments

- ❑ Major exports and imports: machinery, vehicles, metals, manufactures, foodstuffs and textiles.
- ❑ Main trading partners: France, Netherlands, US, China, UK, Italy, Belgium and Austria
- ❑ South African exports to Germany totaled R35bn in 2007, R47.4bn in 2008 and R3.8bn in the year-to February 2009. Imports from Germany totaled R65bn in 2007, R82.4bn in 2008 and R10.7bn in the year- to-February 2009.