



Country outlook
Germany





Germany



Form of Government: Federal parliamentary republic

Capital: Berlin

Official language: German

Population: 83 million inhabitants (2019)

Currency: Euro (EUR)

Exchange rate: 1 EUR = 1.11 USD (31/01/2020)

GDP: \$3.8 trillion (3.1% of world GDP)

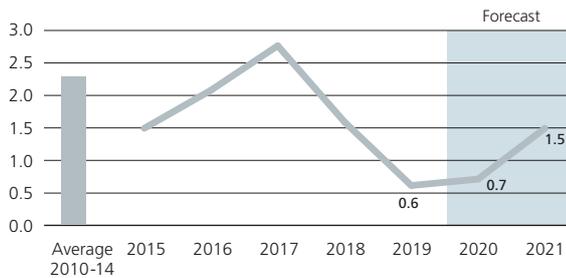
GDP per capita: \$46,564 (\$53,567 purchasing power parity)

Ease of doing business: 22th in the world out of 190 according to the World Bank (*Doing Business*)

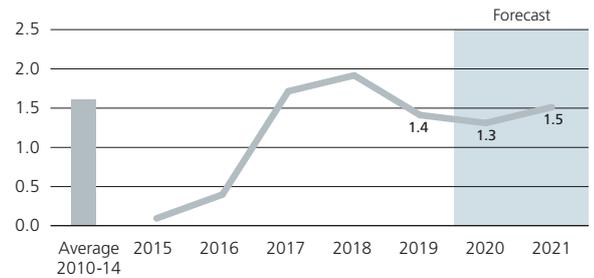
Religion: Christian: 62%

Economic forecast

GDP. Year-on-year change (%)



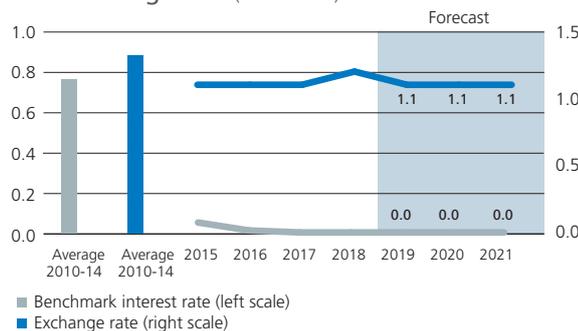
CPI. Year-on-year change (%)



- The growth of the German economy will remain very moderate in 2020, hindered by a manufacturing industry that has been in recession since the end of 2018 due to a series of regulatory shocks and the adverse environment in global trade. Against this backdrop, the only positive counterpoint to that will be public and household consumption. The economy will gradually recover from these shocks as we move through 2020, supported by the strength of the labour market and fiscal stimulus. Therefore, in 2021, growth will be reasonably dynamic.
- Inflation will remain moderate in 2020 and 2021, slowed by weak economic activity. Wage pressures should lessen as the recession in the manufacturing industry hits the labour market, which is currently close to full employment. However, the negative effect from the energy sector will disappear over the course of 2020.

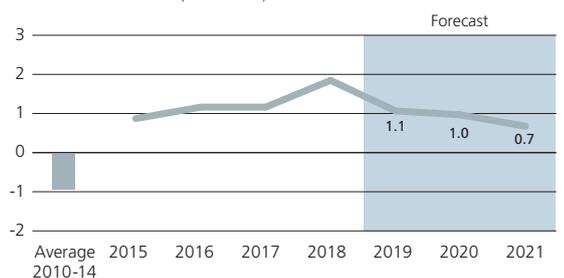
Economic policy

Benchmark interest rate (%) and exchange rate (EUR/USD)

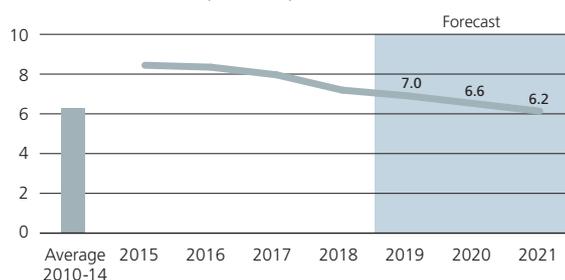


■ Benchmark interest rate (left scale)
■ Exchange rate (right scale)

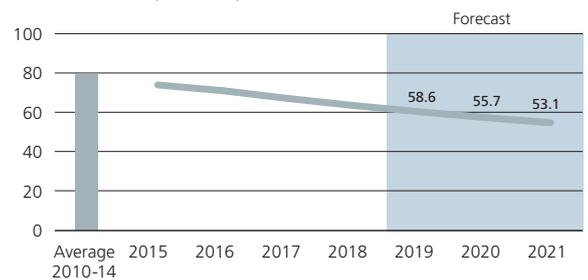
Fiscal balance (% GDP)



Current account (% GDP)



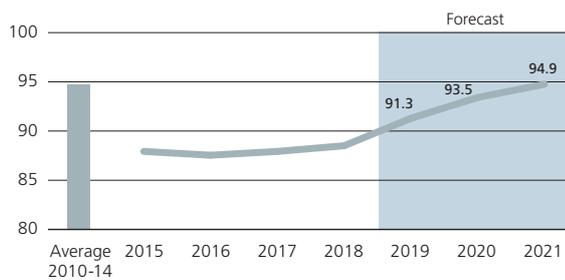
Public debt (% GDP)



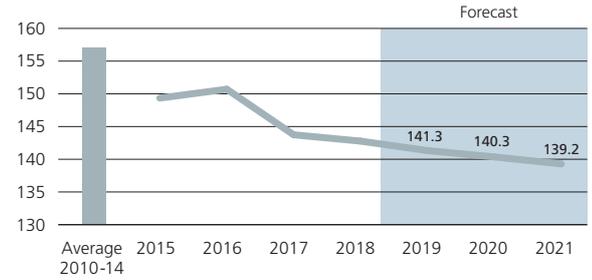
- The current account surplus will decrease in 2020 and 2021 due to more subdued growth in exports, as a result of the slowdown of the global economy and strong domestic demand. In the medium-term, we expect the reduction of the large current account surplus to continue while consumption and investment gradually increase.
- Germany's fiscal policy for the next few years will be characterised by moderate stimulus, as the economy is almost at full employment and the government remains committed to a conservative fiscal policy that is constrained by the constitutional debt brake. However, the government declared that it is prepared to increase expenditure if downside risks emerge and the economy goes into recession. Fiscal policy is expected to bring 0.3 pp of growth in 2020.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



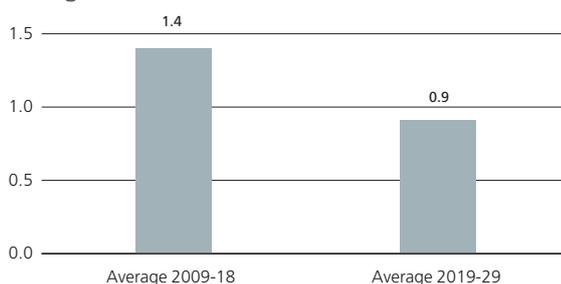
- After years of deleveraging, private credit has increased slightly in the last two years, supporting domestic demand. The low interest rates of recent years, which have driven the increase in private credit, have also had a significant impact on the profitability of German banks. Therefore, in 2019, the Financial Stability Committee recommended introducing a countercyclical capital buffer.
- If interest rates remain at very low levels for a prolonged period, this will lead to significant pressure on the profitability of the banking and insurance sector, a higher credit risk and increased vulnerability to quick interest rate rises. A fall in the value of the real estate market, which is at very high levels, is also a threat to the German financial sector.

Political situation

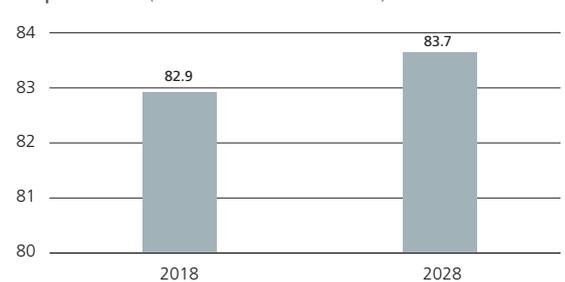
- The German coalition between conservatives (CDU/CSU) and social democrats (SPD) was formed in March 2018, six months after the legislative elections. Annegret Kramp-Karrenbauer, who at the end of 2018 replaced Angela Merkel as the Secretary-General of the CDU, resigned in February 2020 and opened the field to the party's leadership (which will be decided in April 2020).
- The European elections in 2019 and the opinion polls conducted since then point towards a decline the support for the parties that make up the current government coalition, with emerging forces on the rise (particularly the Greens and the extreme-right Alternative for Germany). In the case of the SPD, the Social Democratic Party, support has not just declined, it has plummeted: voting intention for the party fell from 25%, the average level during 2010-2018, to below 15%.
- As the coalition parties are in a weaker position, meaning lower electoral expectations, we do not believe that there is any incentive to break up the government coalition before the end of the term (2021). The success of the Green Party in the European elections and in the opinion polls suggests that the party will be far more important in the future and possibly part of the next coalition government. This is a major shift, as it is the only party that challenges the constitutional debt brake, the conservative fiscal policy in general and the unambitious ecological transition.
- The leadership problems of the CDU and the SPD, the success of the Green Party and the Alternative for Germany party and the tough measures that are necessary for the ecological transition suggest that political instability will increase, after 15 years of stability under the chancellery of Angela Merkel.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)

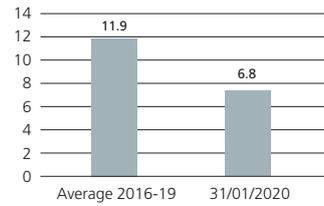


- The country's growth potential is being hampered by limited productivity growth, population decline and a shortage in the supply of highly-skilled workers. To improve the growth potential, greater investment is required in education, R&D and infrastructures. Deep structural reforms must also be carried out, to enable greater competition in sectors such as telecommunications and professional services.
- The ageing population makes it imperative to reform the pension system, to make a longer working life more attractive. Furthermore, greater female participation in the job market should be incentivised (availability of crèches, etc.), as 65% of mothers with children under the age of 7 have part-time jobs. Therefore, tax distortions that discourage labour force participation should be reduced.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	AAA	17/08/83	Stable
MOODY'S	Aaa	09/02/86	Stable
FitchRatings	AAA	10/08/94	Stable

CDS* 5 years (basis points)



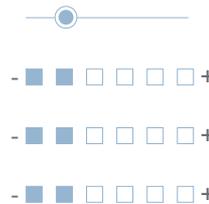
■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

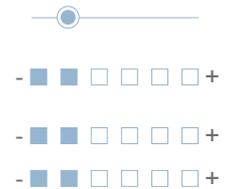
SHORT-TERM

- Complicated political governance
- Rapid price rise in the real estate sector
- Profitability of the banking sector



LONG-TERM

- Demographics and ageing
- Integration of immigrants
- Protectionism



Business environment

STRENGTHS

- Good institutional framework.
- Competitive foreign sector.
- Capacity for innovation.
- Macroeconomic strength.

WEAKNESSES

- Ageing population.
- Under-investment in infrastructure.

Main sectors

EXPORTERS

- Vehicles, machinery, electronics, pharmaceuticals and optical, photographic and medical devices.

IMPORTERS

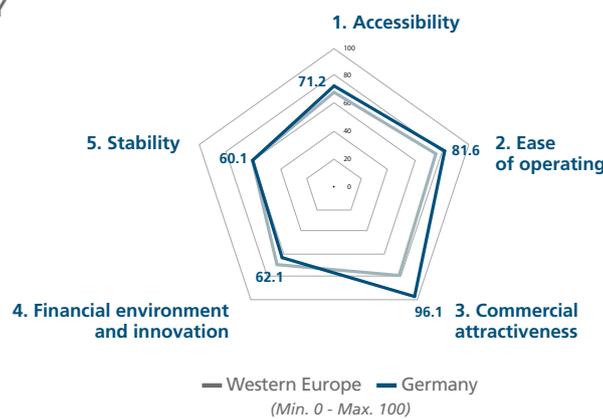
- Machinery, electronics, vehicles, mineral fuels and pharmaceuticals.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

Top

Similar tastes to Spain
 Investment relations with Spain
 Infrastructures

Bottom

Easiness of operating a business
 Macroeconomic stability
 Innovation capability

Taxation

Personal income tax in Germany depends on the income and civil status of the taxpayer. Incomes below 8,130 euros a year and 16,260 euros for married taxpayers are exempt from Personal Income Tax. The legal rate for Personal Income Tax is currently 14%-45% according to individuals' income levels. Corporate tax in Germany is currently 15% and applies to retained and distributed earnings. There is a solidarity surcharge of 5.5%, raising the effective corporate tax to 15.825%. VAT applies to all taxpayers, consumers who may be natural or legal persons and foreigners.

Germany's taxation system establishes two types of VAT: a general rate of 19% for products and services, and a special rate of 7% applied to several privileged categories of products and services such as food, transport services, art products, books and newspapers. Bank and insurance services are not subject to VAT. German law establishes special tax rates for the following sectors: energy, air transport, hydrocarbons, tobacco, alcohol, beer and spirits.

Investment

In Germany, foreign direct investment for 2015 was 31.719 billion dollars, putting it in ninth place worldwide. The software and ICT industry, financial and business services, the machinery and equipment industry, the textile industry and consumer goods have been the sectors with the highest investment over the last five years. Currently, there is controversy

over the financing of the German government's ambitious plan of having up to 80% of energy supplied from renewable sources by 2050. The country requires large investment in innovation in technologies and in modernisation of coal plants. The main countries investing in Germany were the US, Switzerland and the UK.

Establishment

LOCAL COMPANY

In Germany the following kinds of companies can be set up:

- Companies with limited liability: limited liability company (GmbH); public limited company (AG); European company (*Societas Europaea*).
- Companies with unlimited liability: general partnership (*Offene Handelsgesellschaft – OHG*); limited partnership (*Kommanditgesellschaft – KG*).
- Branch (*Zweigniederlassung*).

Limited liability and public limited companies are the most common forms for foreign firms and both provide limited liability for shareholders. German law requires minimum capital for both cases (GmbH, 25,000 euros and AG, 50,000 euros).

Limited liability companies are the most flexible form for any company size and any

activity. According to German law, the minimum capital required is 25,000 euros. The internal management of the company takes place at two levels: a general manager responsible for the company's daily management and a higher decision-making body made up of one or more shareholders. There is a sub-type of GmbH company with the name UG (*Unternehmergesellschaft/UG haftungsbeschränkt*) for small enterprises and startups. This kind of company can start operating with a minimum capital of 1.00 euro. The law requires UG companies to provide reserves totalling 25% of the annual earnings reduced by the losses of the previous year. The obligation to retain earnings remains until the bondholders decide to increase the capital to 25,000 euros, at which time the company becomes a GmbH.

BRANCH

A branch is considered by German law to be the establishment of a foreign company in Germany. The branch can carry out direct activities of its parent company and is

considered to be independent. Branches (*Zweigniederlassung*) must be entered in the Company Registry (*Handelsregister*).

REPRESENTATIVE OFFICE

In Germany, representative offices operate under the name of *Unselbständige Niederlassung*. They are considered to be dependent on their parent company and are only used to carry out supplementary activities,

such as providing information or dealing with customers. Representative offices do not have to be entered in the German Company Registry.

Alliances strategic

FREE TRADE ZONE

There are four free trade zones in Germany: Cuxhaven, Bremerhaven, Deggendorf and Duisburg.

JOINT VENTURE

German competition law significantly restricts carrying out business via joint ventures. The Federal Cartel Office is the specific body that establishes the legal requirements and exercises control. One of the main aims is to prohibit mergers that result in a dominant position in the market. A dominant position is defined as the absence of competitors or a

leading position. According to German law, joint ventures can only carry out activities as authentic entrepreneurs. This means that any firms that buy and distribute on behalf of their parent company are not considered to be joint ventures. The law also requires joint ventures to have enough assets and staff to carry out the activities.

Customs conditions

FREE TRADE AGREEMENTS

The 28 EU Member States form part of a customs union. The customs union is the single trade zone where all goods circulate freely, both those produced in the EU as well as imported goods. A common tariff is applied to imported products; once effective, goods can

circulate freely throughout all countries in the EU. In the case of Germany, the island of Helgoland and the territory of Busingen am Hochrhein are excluded from the common territory.

FREE TRADE ZONE

As in the other EU countries, goods in Germany's customs territory either have the status of Community goods (goods manufactured or obtained in the EU) or non-Community goods (all goods that do not comply with the EU criteria). Importers may only be in possession of a limited amount of non-Community goods according to the quantities permitted by the customs authority.

Different customs procedures apply depending on the aim of importation. Goods may be imported to be sold, repaired, temporarily

stored or used to produce other products for re-exportation.

The Union Customs Code establishes eight customs procedures where the intended use of the goods determines which customs procedure is applied. The features of each procedure and import duty payment conditions can be viewed via the following link: <http://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/The-tax-system/customs,t=customs-procedures,did=6978.html>

GENERALISED SYSTEM OF PREFERENCES (GSP)

Germany is one of the countries that grants tariff preferences by applying zero duty or reduced tariffs to beneficiary countries (less developed countries).

Negotiations and protocol

BUSINESS CULTURE

English and German are the most widely used languages in negotiations in Germany, although knowledge of German is highly appreciated. Communication is direct and concise. Frankness is very important for Germans, while feelings and personal emotions are kept out of business. German businesspeople plan meetings and prepare the arguments and material they will use in advance. Punctuality is highly respected. The

most common greeting in business is a handshake. Treatment is very formal and they usually use the titles Herr or Mr and Frau or Mrs/Ms and professional titles. Germans usually jealously guard their privacy. Working hours are not standardised in Germany and depend on each federal state. Offices and banks are normally open Monday to Friday from 9 am to 6 pm.

Top fairs

- Vivanti.
- Haus, Bau, Energie Donaueschingen.
- HeimTextil.
- Trau.
- Exterior.
- Eurocheval.

Websites of interest

- Germany Trade & Invest: <http://www.gtai.de/>
- Customs in Germany: http://www.zoll.de/EN/Home/home_node.html
- Chambers of Commerce abroad: www.ahk.de/en
- German Customs and Financial Union: www.bdz.eu
- German Federation of Wholesale Trade, Foreign Trade and Services: www.bga.de
- German Federal Chamber of Industry and Commerce: www.dihk.de

Payment and charging methods**MEANS OF COLLECTION**

The most widely used payment method in the German market is electronic transfer. This is the fastest and cheapest method. Average payment periods vary between 30, 60 and 90 days depending on the agreement between the parties. The SWIFT network means that payments can be made securely and

transparently. Documentary credit is used in private firms but is less common due to the costs and time involved. Bills of exchange (*Wechsel*) are not very widely used and payment usually takes place after 60-90 days (now SEPA).

MEANS OF PAYMENT

Bank transfers (*Überweisung*) are the most common payment method in commercial relations in Germany. The main German banks are connected to the SWIFT network. The single European payment area (SEPA) has been available since 2014. Transfers are considered to be the fastest and most efficient way to make a payment.

Bills of exchange and cheques are not often used in Germany. According to German commercial practice, bills of exchange suggest an unstable financial situation and lack of confidence. Cheques are not seen as payment but rather an intention to pay. German law does not have the principle of guarantee cheques and the issuer can cancel payment at any time and for any reason.

EXCHANGE RATE INSURANCE

No exchange rate insurance is required as Spain and Germany belong to the economic and monetary union (euro area).

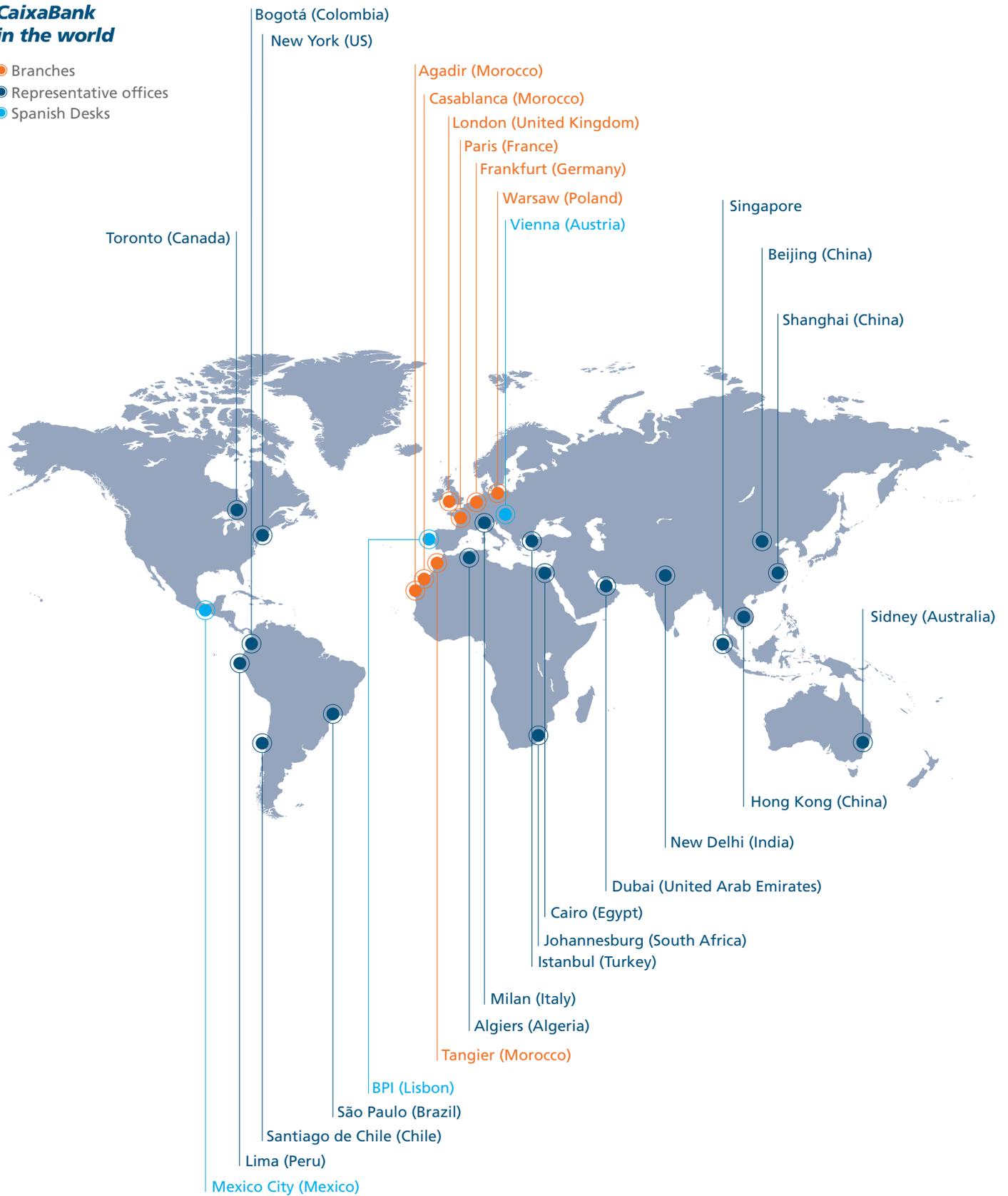
CaixaBank in the country

CaixaBank has an operating branch in Frankfurt, where it provides a service to medium-sized and large companies throughout Germany. Our origins in the country go back to 2002, when we started accompanying CaixaBank customers who were expanding their businesses to

Germany. Our current line of work is focused on offering financial products and services locally, both to German multinationals that operate in Spain and to subsidiaries of Spanish companies in Germany.

**CaixaBank
in the world**

- Branches
- Representative offices
- Spanish Desks



Frankfurt representative office

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