Germany: Market Profile

25 March 2021

Fitch Solutions

1. Overview

Germany is a key member of the European economic, political, and defence organisations. The German economy ranks among the top five in the world, and the country is a leading exporter of machinery, vehicles and chemicals. It also benefits from a highly skilled labour force and strong research and development (R&D) expenditure. Germany's economic growth will face risks stemming from softer global growth momentum and Brexit-related uncertainty weighing on the crucial export sector. As the largest market in Europe, Germany is a major destination for foreign direct investment (FDI). Consequently, a vast FDI stock has accumulated over time. The solid labour market should continue to be a main driver of the German economy, although a declining population poses a long-term challenge for policymakers. Over the short term, Germany's economy will face severe challenges from the weakening global demand for its exports and slowing business activity following recent lockdowns and operational restrictions amid the Covid-19 pandemic. Household consumption will also subtract from growth for the first time since 2010, while private investment is set to contract at a rate unseen even at the peak of the 2009 global financial crisis. Over the medium term, structural challenges may also dampen output. Germany's economy will continue its slow rebalance away from exports and towards domestic demand, with rising wages and ageing households boosting consumption.

Source: Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

January 2019
President Emmanuel Macron of France and Merkel signed the Aachen treaty, a renewed and extended version of the Paris treaty signed in 1963, to enhance Franco-German cooperation in a number of policy areas at European and international levels.

April 2019
Daimler announced plans to cut costs to save at least USD8.7 billion by 2021 at the Mercedes-Benz passenger car and van division, and the Daimler Trucks division. The company will seek to raise funds for investing in the electrification of its fleet. The automaker's vehicle sales in Mainland China declined in 2018 for the first time in two decades.

May 2019
The Social Democratic Party, which controlled the finance ministry as the junior coalition partner, rejected United States President Donald Trump's demand that Germany at least match its North Atlantic Treaty Organization-sponsored target of spending 2% of GDP on the military.

May 2019
Germany and France asked the European Union (EU) to approve state subsidies for a battery cell consortium, trying to curb the market dominance of Asian companies.

July 2019
Deutsche Bank, Germany's largest lender, announced restructuring plans.

October 2019
Berlin's state cabinet agreed to a five-year rent freeze to counter rising housing costs in the capital. The proposal still required approval by the state parliament.

November 2019
Tesla announced plans to build its first European battery plant in Berlin.

February 2020
Annegret Kramp-Karrenbauer resigned as the leader of the Christian Democrats and announced that she would not stand as its chancellor candidate in the federal elections in 2021.

April 2020
Germany’s government agreed to tighten rules to protect domestic firms from unwanted takeovers by investors from non-EU countries.

May 2020
Germany's constitutional court ruled that the Bundesbank must stop buying government bonds under the European Central Bank (ECB)'s long-running stimulus scheme within three months, unless the ECB can prove the purchases are needed. Following this, the European Commission (EC) announced the possibility of legal action after Germany’s top court questioned the legality of the ECB's bond-buying programme.

As of May 28, Germany announced measures to support the economy in response to the Covid-19 pandemic. The authorities extended all ECB-issued regulatory and operational relief to German banks under national supervision. In addition to measures at the euro area level other measures include additional EUR100 billion to refinance expanded short-term liquidity provision to companies through the public development bank KfW, in partnership with commercial banks; and following the structure of the former Financial Stabilization Fund, EUR100 billion were allocated within the WSF to directly acquire equity of larger affected companies and strengthen their capital position.

June 2020
Germany’s federal government adopted a supplementary budget worth over EUR130 billion, or around 4.0% of GDP. The additional stimulus package envisaged a temporary VAT reduction, income support for families, grants for pandemic-hit small- and medium-sized enterprises (SMEs), financial support for local governments, expanded credit guarantees for exporters and export-financing banks, and subsidies/investment in green energy and digitalisation.

July 2020
Following a record five-day summit, EU heads of government agreed on a new EUR750 billion Next Generation EU (NGEU) fund on July 21. The NGEU would be financed by joint debt issuance and will include grants worth EUR390 billion (EUR312.5 billion of which will be dedicated to Covid-19 recovery) to be distributed over 2021-2023. Countries that were hardest-hit by the Covid-19 pandemic such as Italy and Spain set to be the main beneficiaries. During the summit, the bloc also approved its regular seven-year Multi-annual Financial Framework (MFF) which would see EUR1.1 billon distributed over 2021-2027.

September 2020
Electra M&E Polska signed a EUR70 million (USD82.8 million) agreement with Tesla to carry out the electromechanical works at the latter's under-construction electric vehicle (EV) manufacturing plant near Berlin, Germany (Globes). Under the agreement, Electra will carry out 70% of the electromechanical works including the air-conditioning, heating and ventilation systems, electrical and low tension works, and control systems at the 300,000sq m manufacturing plant. The German plant is Tesla's first EV plant in Europe.

December 2020
The EU and Mainland-China have concluded in principle the negotiations for a Comprehensive Agreement on Investment (CAI). This deal follows a call between Xi Jinping and EC President von der Leyen, European Council President Charles Michel and German Chancellor Angela Merkel on behalf of the Presidency of the EU Council, as well as French President Emmanuel Macron. Mainland-China had committed to a greater level of market access for EU investors than ever before, including some new important market openings. China is also making commitments to ensure fair treatment for EU companies so they can compete on a level playing field in Mainland China, in terms of disciplines for state owned enterprises, transparency of subsidies and rules against the forced transfer of technologies.

January 2021
On January 16 delegates from the ruling Christian Democratic Union (CDU) voted in a digital contest to elect Armin Laschet, Premier of North Rhine-Westphalia, as Annegret Kramp-Karrenbauer's (AKK) successor as party chair. Despite weak polling figures among the general public, Laschet's stronger powerbase within the CDU, in part reflecting his status as the Merkel-continuity candidate, saw him edge out the more conservative Friedrich Merz in a second-round run-off by 521 votes to 466.

February 2021
On February 1, Dimitry Medvedev, former prime minister and now Deputy Chair of Russia's Security Council, said Russia may turn to legal action to protect its interests in Nord Stream 2. On the same day, the new United States administration reportedly signalled to Germany that it could be willing to discuss the lifting of sanctions on the project in return for proposals from Berlin to ensure Europe's energy security. Nord Stream 2 currently stands at around 94% complete, with less than 150km of pipeline left to lay. Once completed, the pipeline would be 1,230km in length and have the capacity to transport 55bcm of natural gas from Russia to Germany per year. Nord Stream 2 AG was the project firm established to construct and operate the pipeline. Russia's Gazprom would be the supplier of the gas and BP, ENGIE, OMV, Shell, Uniper and Wintershall DEA are financial investors.

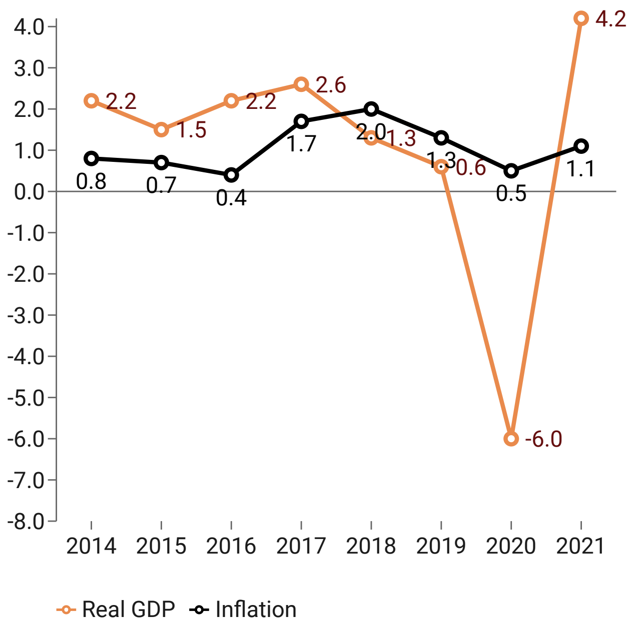
March 2021
On March 10, Apple announced plans to invest over EUR1 billion (USD1.19 billion) to set up a new facility in Munich, Germany to focus on 5G and future wireless technologies. Munich will become Apple's European silicon design center, where it plans to add hundreds of new employees and construct a new state-of-the-art facility focused on connectivity and wireless technologies, according to the company statement.

September 2021
The 2021 German federal election for the 20th Bundestag is expected to be held on September 16, 2021.

Sources: BBC Country Profile – Timeline, Federal Ministry for Economic Affairs and Energy, Bloomberg, Deutsche Welle, Al Jazeera, Reuters, Fitch Solutions

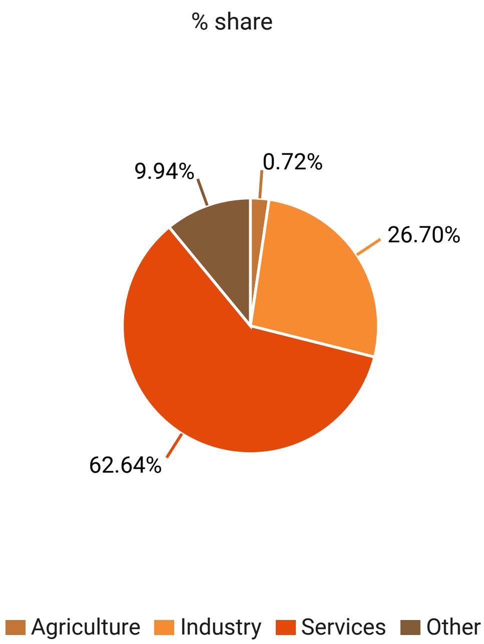
3. Major Economic Indicators

Real GDP and Inflation



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: February 15, 2021

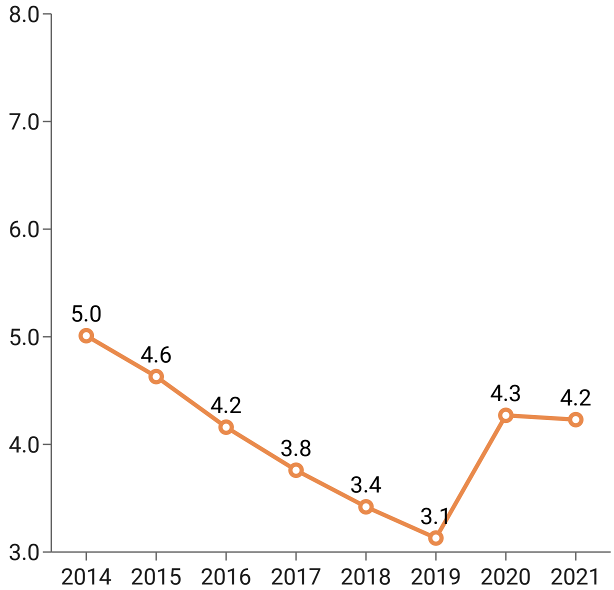
GDP by Sector (2019)



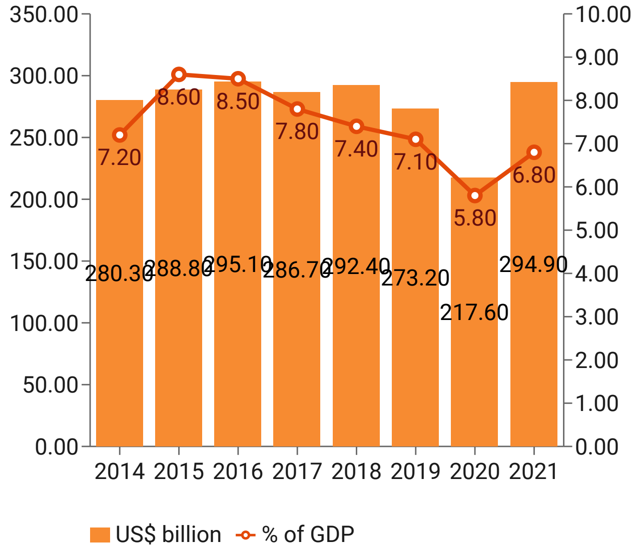
Sources: World Bank, Fitch Solutions
Date last reviewed: February 15, 2021

Unemloyment Rate

Current Account Balance



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: February 15, 2021

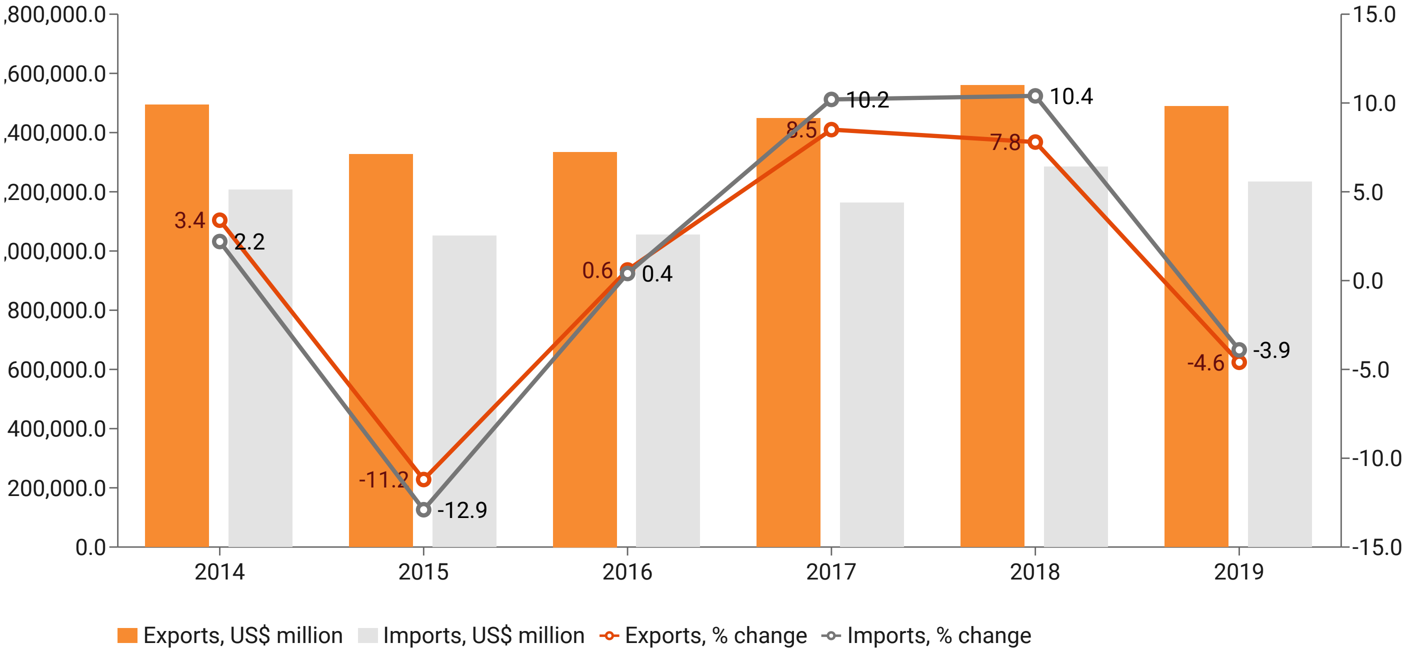


2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: February 15, 2021

4. External Trade

4.1 Merchandise Trade

Merchandise Trade



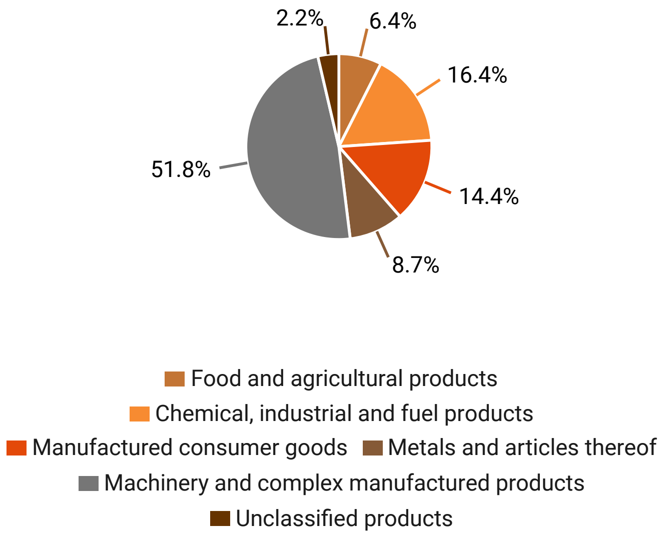
Source: WTO
Date last reviewed: February 15, 2021

Major Export Commodities (2020)

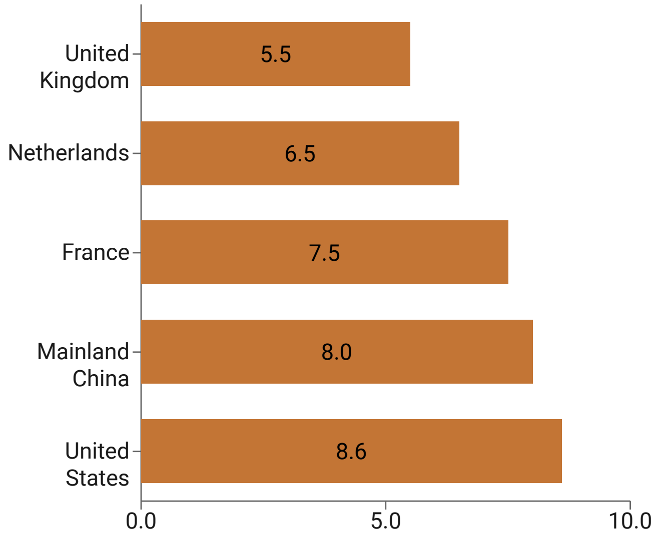
% share

Major Export Markets (2020)

% share



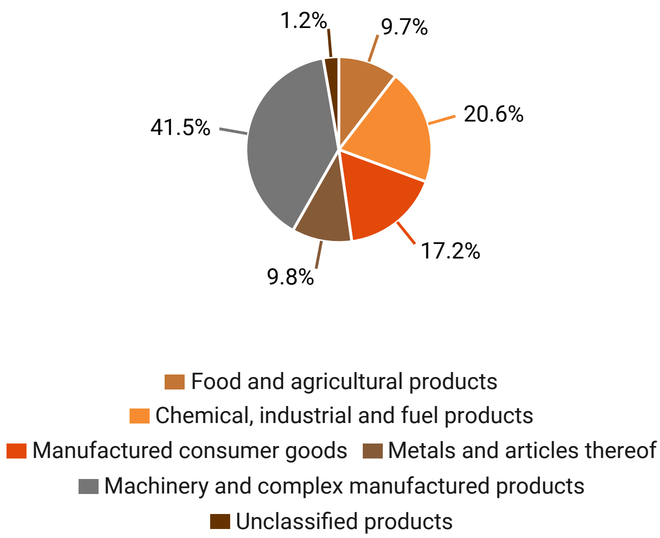
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: February 15, 2021



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: February 15, 2021

Major Import Commodities (2020)

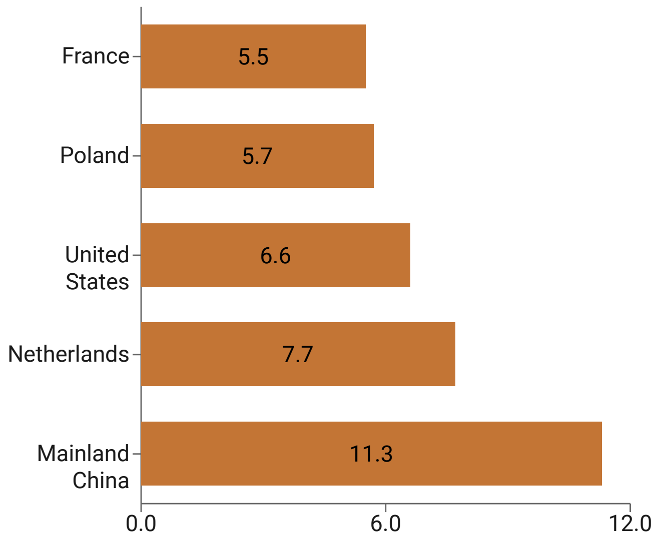
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: February 15, 2021

Major Import Markets (2019)

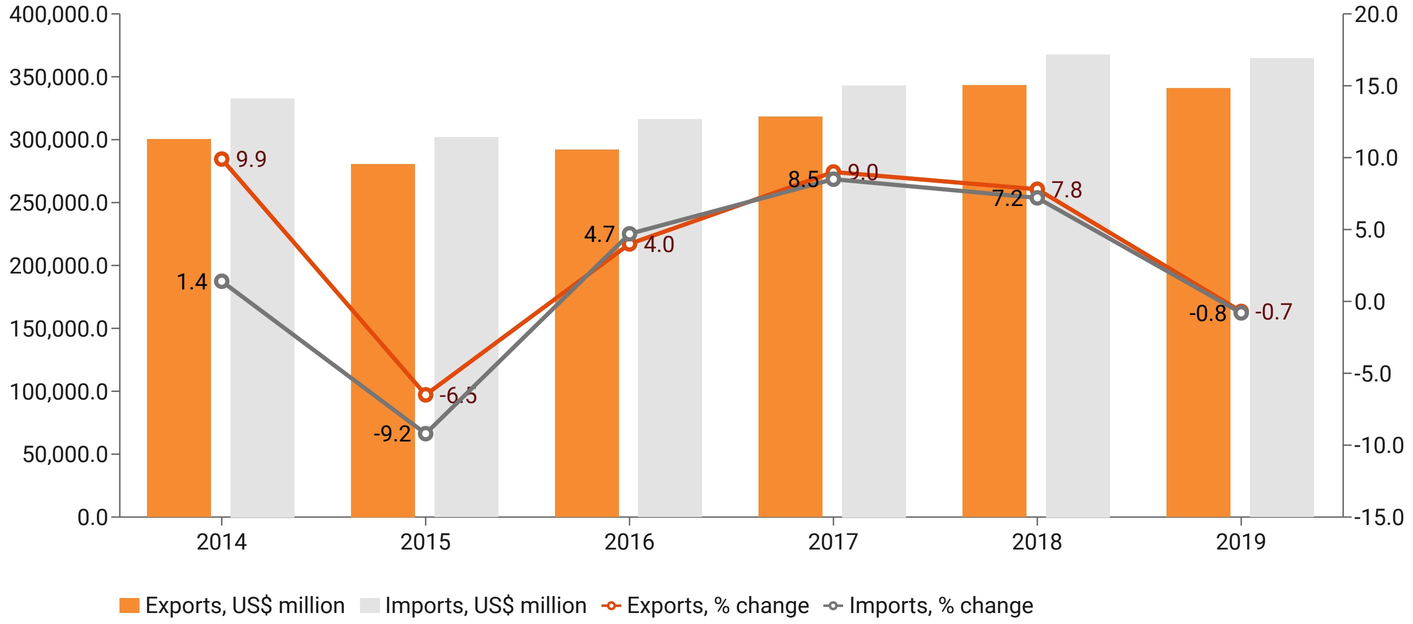
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: February 15, 2021

4.2 Trade in Services

Trade in Services



2019 (estimate)
Source: WTO
Date last reviewed: February 15, 2021

5. Trade Policies

- Germany has been a member of the World Trade Organization (WTO) since January 1, 1995, and a member of the General Agreement on Tariffs and Trade since October 1, 1951. It is also a member state of the EU. Germany incorporates EU regulatory norms. As a eurozone member, it has adopted the euro as its legal tender.

- As an EU member, a common tariff applies to the import of goods across the external borders of the EU. The EU has an overall simple tariff of 5.1%. Once goods are cleared by customs authorities upon entry into any EU member state, these imported goods can move freely among EU member states without any additional customs procedures. The EU updated its trade policy (and, by extension, its import tariffs, customs, duties and procedures) in 2017 and 2018.

- The EU is party to some 50 free trade agreements (FTAs) and access to other markets is mediated through those agreements. The EU's scheme on a Generalised Scheme of Preferences (GSP) came into effect on January 1, 2014. Under the scheme, tariff preferences have been removed for imports into the EU from countries where per capita income has exceeded USD4,000 for four years in a row. As a result, the number of countries that enjoy preferential access to EU markets was reduced from 176 to fewer than 80. While Mainland China remains a beneficiary, many of its exports – such as toys, electrical equipment, footwear, textiles, wooden articles, watches and clocks – have already been graduated from preferential treatment. Hong Kong has been fully excluded from the EU's GSP since May 1, 1998.

- Trade bureaucracy and customs delays are a significant hindrance to foreign investors, particularly those outside the EU. Although there are increasing efforts to reduce trade bureaucracy, paper-based procedures remain cumbersome, and cost and connectivity issues add to market barriers. The German *Länder* (federal states) have a say in European affairs through the Bundesrat (upper chamber of parliament). It is incumbent on the federal government to instruct the Bundesrat at an early stage on all plans at EU level that are relevant to the *Länder*. The federal government notifies draft technical regulations to the WTO Committee on Technical Barriers to Trade through a national notification office within the Federal Ministry for Economic Affairs and Energy, where in April 2019 Federal Minister for Economic Affairs Peter Altmaier called for the reduction of red tape within the EU.

- In 2018, the EU modernised its trade defence instruments in response to member states wanting to shield EU producers from damage caused by unfair competition and to ensure a level playing for businesses. Anti-dumping and anti-subsidy regulations were amended to better respond to unfair trade practices and furnish Europe's trade defence instruments with more transparency, quicker procedures and more effective enforcement. In exceptional cases, such as in the presence of distortions in the cost of raw materials, the EU will be able to impose higher duties through the limited suspension of the lesser commodity rule.

- The EC has introduced an import licensing regime for certain iron, steel and aluminium products exceeding 2.5 tonnes. The regulation will be active until May 15, 2020.

- The EU has imposed various anti-dumping measures on a wide range of products, predominantly in the areas of textiles, machine parts, steel, iron and machinery, and certain goods coming from Mainland China and a few other Asian nations in order to protect domestic industries. Currently, a number of products originating from Mainland China are subject to the EU's anti-dumping duties, including bicycles, bicycle parts, ceramic tiles, ceramic tableware and kitchenware, fasteners, ironing boards and solar glass, which are of interest to Hong Kong and regional exporters. In November 2016, the EC imposed a provisional anti-dumping duty on imports of some primary and semi-processed metals from Mainland China. The rate of duty is between 43.5% and 81.1% of the net free-at-union-frontier price before duty, depending on the company. As of October 2019, the EU is not applying any anti-dumping measures on imports from Hong Kong.

- On August 5, 2020, The EC extended anti-dumping duties on imports of Chinese corrosion-resistant steel. The EU set duties in February 2018 of between 17.2% and 27.9% for imports of certain corrosion-resistant steels from Mainland China.

- The United States Trade Representative (USTR) announced on August 12, 2020 that tariffs imposed on European goods as part of the Airbus-Boeing trade dispute would remain largely unchanged. The USTR only announced minor changes to the list of products facing a 25% tariff; from September 1, British biscuits and Greek cheese will no longer feature on the list, while French and German jam will now be subjected to the tariff. This is part of a tariff review which the USTR launched in June, which we previously said was highly likely to result only in minor changes.

Sources: WTO – Trade Policy Review, European Commission, Federal Ministry of Economic Affairs and Energy, Fitch Solutions

6. Trade Agreement

6.1 Multinational Trade Agreements

Active

1. EU Common Market: The transfer of capital, goods, services and labour between member nations enjoys free movement. The common market extends to the 27 member states of the EU, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. As Germany's main trade partners are in the EU, the absence of customs charges with member countries greatly enhances its trade volumes.

2. European Economic Area (EEA)-European Free Trade Association: This economic integration agreement entered into force on January 1, 1994. The EEA unites the EU member states and European Free Trade Association states (Iceland, Liechtenstein, Norway and Switzerland) into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms. While it enhances trade flows between these countries and Germany, only Switzerland is a fairly major trading partner.

3. EU-Japan Economic Partnership Agreement (EPA): In July 2018, the EU and Japan signed a trade deal that promises to eliminate 99% of tariffs that cost businesses in the EU and Japan nearly EUR1 billion annually. According to the EC, the EU-Japan EPA will create a trade zone covering 600 million people and nearly one-third of global GDP. The result of four years of negotiation, the EPA was finalised in late 2017 and came into force on February 1, 2019, after the European Parliament ratified the agreement in December 2018. The total trade volume of goods and services between the EU and Japan is estimated to be EUR86 billion. The key parts of the agreement will cut duties on a wide range of agricultural products, and it seeks to open up services markets, particularly financial services, e-commerce, telecommunications and transport. Japan is the EU's second biggest trading partner in Asia after Mainland China. EU exports to Japan are dominated by motor vehicles, machinery, pharmaceuticals, optical and medical instruments, and electrical machinery.

4. EU-Canada Comprehensive Economic and Trade Agreement (CETA): CETA is expected to strengthen trade ties between the two regions, having been signed in October 2016 and provisionally coming into effect on September 21, 2017. Some 98% of trade between Canada and the EU is duty free under CETA. The agreement is expected to boost trade between partners by more than 20%. CETA also opens up government procurement. Canadian companies will be able to bid on opportunities at all levels of the EU government procurement market and vice versa. CETA means that Canadian provinces, territories and municipalities are opening their procurement to foreign entities for the first time, albeit with some limitations regarding energy utilities and public transport.

5. EU-Turkey Customs Union: The EU and Turkey are linked by a customs union agreement that entered into force on January 1, 1996. Turkey has been a candidate country to join the EU since 1999 and is a member of the Euro-Mediterranean Partnership. The customs union with the EU provides Turkey with tariff-free access to the European market, benefitting both exporters and importers. Turkey is the EU's fourth largest export market and its fifth largest provider of imports. The EU is by far Turkey's number one import and export partner. Turkey's exports to the EU are mostly machinery and transport equipment, followed by manufactured goods. At present, the customs union agreement covers all industrial goods, but does not address agriculture (except processed agricultural products), services or public procurement. Bilateral trade concessions apply to agricultural, coal and steel products. In December 2016, the EC proposed the modernisation of the customs union and to further extend bilateral trade relations to areas such as services, public procurement and sustainable development.

6. EU-Southern African Development Community (SADC) EPA (Botswana, Lesotho, Mozambique, Namibia, South Africa and Eswatini): An agreement between the EU and SADC delegations was reached in June 2016 and entered into force in October 2016 for five SADC members, joined by a sixth in February 2018 following the ratification of the agreement by Mozambique. The remaining six members of the SADC not included in the deal (the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe) are seeking EPAs with the EU as part of other trading blocs – such as the East African Community and the Economic Community of Central African States. Germany's

largest exports to the SADC (South Africa in particular) are motor vehicles and machinery.

7. EU-Singapore Free Trade Agreement (EUSFTA): The agreement entered into force on November 21, 2019. Singapore will remove tariffs on all EU products entering Singapore, and the EU will do so for 84% of Singapore exports, including Asian food products. Tariffs on the remaining 16% of Singapore products, such as selected meat and seafood produce, will be removed over three to five years. The agreement also includes flexible rules of origin for key exports such as automobiles, electronics and pharmaceuticals from Singapore and the EU into each other's markets.

8. EU-Vietnam FTA: In July 2018, the EU and Vietnam agreed on final texts for the EU-Vietnam FTA and the EU-Vietnam Investment Protection Agreement (IPA). On June 30, 2019, the relevant parties signed the agreement on both the trade agreement and the IPA. The signed agreements will be presented to both the EU and Vietnamese parliaments as well as the individual parliaments of EU members for ratification. Once in force, the agreement will see 65% of EU exports to and 70% of imports from Vietnam immediately exempted from customs duties. In February 2020, the European Parliament approved the trade agreement with Vietnam, with the majority voting in favour of ratifying the agreement. The FTA entered into force on August 1, 2020.

Provisionally Active

CETA: This is an agreement between the EU and Canada. CETA was signed in October 2016 and ratified by the Canadian House of Commons and EU Parliament in February 2017. However, the agreement has not been ratified by every European state and has only provisionally entered into force.

Ratification Pending

1. EU-Central America Association Agreement (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Belize and the Dominican Republic): An agreement between the parties was reached in June 2012 and is awaiting ratification (30 of the 34 parties have ratified the agreement as of October 2019). The agreement has been provisionally applied since August 2013.

2. EU-Mercosur: The EU and Mercosur (Argentina, Brazil, Paraguay and Uruguay) signed a trade deal on June 28, 2019, after 20 years of negotiation. The trade agreement for goods and services will cover nearly 25% of global GDP and almost 800 million people. The deal is expected to cut duties on EU exports to Mercosur by EUR4 billion annually and to eliminate tariffs on 93% of Mercosur's exports to the EU and 91% of EU exports to Mercosur states. The deal will also include access to public procurement contracts. Mercosur states will greatly benefit from increased access to the EU for agricultural goods, which has resulted in opposition to the deal by European farmers. European firms, especially those in the manufacturing and industrial sector, will have an advantage over competitors after the removal of high tariffs.

3. EU-UK Trade and Cooperation Agreement: The United Kingdom (UK) and the EU signed the Trade and Cooperation Agreement on December 30, 2020, and the deal was ratified in the UK and provisionally applied in the EU at the end of December 2020, pending full ratification following scrutiny by the European Parliament, which is due to conclude its session by February 2021 but can extend this. A legally scrubbed text of the agreement is then due to be formally ratified in April 2021. The agreement sets out preferential arrangements in areas such as trade in goods and in services, digital trade, intellectual property, public procurement, aviation and road transport, energy, fisheries, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation, and participation in Union programmes. It is underpinned by provisions ensuring a level playing field and respect for fundamental rights.

Under Negotiation

1. EU-Australia: The EU, Australia's second largest trade partner, has launched negotiations for a comprehensive trade agreement with Australia. Bilateral trade in goods between the two partners has risen steadily in recent years, reaching almost EUR48 billion in 2017, while bilateral trade in services added a EUR27 billion. The negotiations aim to remove trade barriers, streamline standards and put European companies exporting to or doing business in Australia on an equal footing with those from countries that have signed up to the Trans-Pacific Partnership or other trade agreements with Australia. The Council of the EU authorised opening negotiations for a trade agreement between the EU and Australia on May 22, 2018, and on June 18, 2018, negotiations began. On February 10-14, 2020, Negotiating Round six was held in Canberra. A seventh round was held from May 4-20, 2020. Australia is seeking an ambitious and comprehensive FTA to drive Australian exports, economic growth and job creation. The ninth negotiation round took place from November 30 to December 11, 2020.

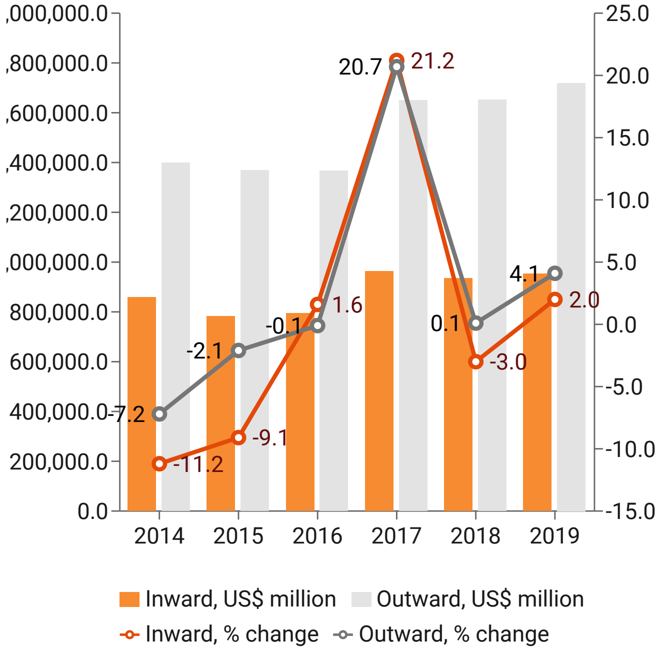
2. EU-United States Transatlantic Trade and Investment Partnership (TTIP): This agreement was expected to increase trade in goods and services, but talks were suspended at the end of 2016. In January 2019, the EC published its draft negotiating directives, which include a trade agreement focused on the removal of tariffs on industrial goods, excluding agriculture. On April 15, 2019, the EU member states gave the EC their approval to start formal negotiations. The negotiating directives for the TTIP are no longer relevant.

Sources: WTO Regional Trade Agreements database, European Commission, Fitch Solutions

7. Investment Policy

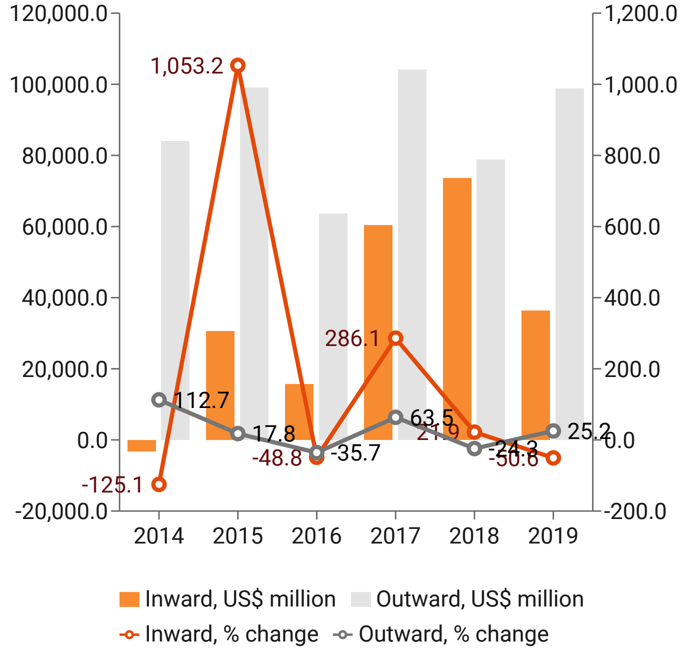
7.1 Foreign Direct Investment

Foreign Direct Investment Stock



Source: UNCTAD
Date last reviewed: February 15, 2021

Foreign Direct Investment Flow



Source: UNCTAD
Date last reviewed: October 4, 2020

7.2 Foreign Direct Investment Policy

1. Germany Trade and Invest (GTAI), established in 2009, is the national economic development agency, with more than 50 offices in Germany and abroad. The GTAI promotes Germany as a business location and acts as a facilitator for foreign companies looking to invest in Germany. A number of federal states also have regional investment promotion agencies.

2. Germany has an open and welcoming attitude towards FDI. Over the past 10 years, FDI stocks in Germany have doubled. While this FDI mainly originated from other European countries, the United States and Japan, FDI from emerging economies – particularly Mainland China – has grown substantially over the past decade and a half, albeit from a low level. To promote the development of competitive industries – smart solutions, the digital economy, electronics and micro-technology, energy efficiency and green buildings, energy storage, life sciences, logistics, machinery and equipment, corporate services environment and resources, aerospace and automobiles – Germany has put in place various incentive programmes for local and foreign investors, offering different measures to reimburse investment costs (from cash incentives to public loan and public guarantee programmes) and subsidy costs (from labour-related measures to R&D incentives) for location-based investments.

3. EU states are generally open to FDI, but in February 2017 Germany, France and Italy requested that the EC review the possibility of EU member states being given the ability to block foreign investment on the grounds of reciprocity.

4. The German legal, regulatory and accounting systems can be complex, but they are transparent and consistent with international norms. Businesses enjoy considerable freedom within a well-regulated environment. Foreign and domestic investors are treated equally when it comes to investment incentives, and the establishment and protection of real and intellectual property. Foreign investors can fully rely on the legal system, which is efficient and sophisticated. This system requires investors to pay attention to their legal obligations. First-time investors will need to ensure that they have the necessary legal expertise to meet all requirements.

5. Although Germany has 127 investment protection agreements in force, the negotiations for the Transatlantic Trade and Investment Partnership, which were initiated in 2013, triggered political tensions, including investor state dispute settlement mechanisms.

6. The Federal Ministry for Economic Affairs and Energy (BMWi) may review acquisitions of domestic companies by foreign buyers in individual cases to assess whether these transactions pose a risk to the public order or national security of the Federal Republic of Germany. The Foreign Trade and Payments Act and the Foreign Trade and Payments Ordinance provide the legal basis. However, in practice, restrictions of FDI are very rare. German law provides that private property can be expropriated for public purposes only in a non-discriminatory manner and in accordance with established principles of constitutional and international law. There is due process and transparency of purpose, and investors and lenders to expropriated entities receive prompt, adequate and effective compensation.

7. Cross-sector investment review procedures apply to any acquisition of a company by a foreign investor located outside the territory of the EU or the European Free Trade Area region, whereby investors acquire ownership of at least 25% of the voting rights of a company resident in Germany. There is no requirement for investors to obtain approval for or notify any acquisition, but the BMWi may conduct a review within

three months from the day of the conclusion of the acquisition agreement. An investor may also request a binding certificate of non-objection from the BMWi in advance of the planned acquisition to obtain legal certainty at an early stage. If the BMWi does not open an in-depth review within one month of the receipt of the request, the certificate shall be deemed as granted.

8. Special rules apply for the acquisition of companies that operate in sensitive security areas, including defence and IT security. In contrast with the cross-sectoral rules, sensitive acquisitions must be notified in written form, including basic information of the planned acquisition, the buyer, the domestic company that is the subject of the acquisition and the respective fields of business. The BMWi may open a formal review procedure within one month after receiving notification, otherwise the acquisition shall be deemed as approved. If a review procedure is opened, the buyer is required to submit further documents. The acquisition may be restricted or prohibited within one month after the full set of documents has been submitted. Any decisions resulting from review procedures are subject to judicial review by an administrative court.

9. Germany is a member of both the International Centre for the Settlement of Investment Disputes and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, meaning that local courts must enforce international arbitration awards under certain conditions.

10. Before engaging in commercial activities, companies and business operators have to register in public directories, the two most significant of which are the commercial register (Handelsregister) and the trade office register (Gewerberegister). GTAI can assist in the registration processes.

11. Germany has bilateral investment treaties (BITs) in force with 127 countries, and four more have been signed but are not yet in force.

12. While Germany's Foreign Economic Law contains a provision permitting restrictions on private direct investment flows in either direction for reasons of foreign policy, foreign exchange or national security, in practice, restrictions have mainly been imposed in the air transport, maritime transport, inland waterways and rail transport sectors. In 2016, the German government withdrew its approval and announced a re-examination of the acquisition of German semiconductor producer Aixtron by Mainland China's Fujian Grand Chip Investment Fund based on national security concerns. Before the German government could reissue a decision, Fujian Grand Chip withdrew its offer as the result of a concomitant negative ruling by the Committee on Foreign Investment in the US. Germany limits the foreign provision of employee placement services, such as providing temporary office support, domestic help or executive search services.

13. Germany has treaties with investment provisions with 77 individual countries and economic blocs worldwide.

14. The German government agreed to tighten protections for companies from foreign takeovers as the coronavirus pandemic affecting the global economy raises concerns about the vulnerability of key industries. They will enable the government to block acquisitions that present 'potential interference', a lower threshold than existing rules that envisage a security threat.

Sources: WTO – Trade Policy Review, International Trade Administration, Germany Trade and Invest, UNCTAD, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
1. Freeport of Bremerhaven (Freihafen Bremerhaven) 2. Freeport of Cuxhaven (Freihafen Cuxhaven), since 1896 In recent years, falling tariffs and the progressive enlargement of the EU have gradually eroded much of the utility and attractiveness of duty-free zones. For example, Kiel and Emden lost their free trade zone (FTZ) status in 2010, Hamburg in 2013 and Deggendorf its free port status in 2016.	FTZs in Germany are specific geographic areas where economic incentives are provided to companies operating in the region. Foreign and domestic merchandise can be brought in and sold without being subject to taxation. Germany's FTZs are also called foreign free zones, free ports or bonded warehouses. Given their tax regime, FTZs attract investments in the German economy. The EU Community Customs Code regulates activity within Germany's FTZs. Both German and foreign companies can do business in these FTZs. Germany's FTZs have a fixed perimeter with entry and exit points that are subject to customs supervision. The way in which community and non-community goods and merchandise are dealt with on import and export is the main criteria of FTZ classification.

Other incentives	Investment or operational incentives in Germany are generally provided in the form of direct subsidies as non-repayable cash grants, reduced-interest loans, public guarantees or silent participations. Incentives mainly focus on the promotion of business expansion and new investments, energy transition (to renewable solar and wind energy), energy efficiency, the development of electric mobility and environmental protection, social housing, health care, infrastructure and agriculture, R&D and recruitment – particularly of the long-term unemployed. Investor production facility set-up costs can be significantly reduced by cash incentives provided in the form of grants. There is one major programme directing the allocation of these cash grants, the Joint Federal/*Länder* Task for the Improvement of Regional Economic Structures (Gemeinschaftsaufgabe – GRW), throughout Germany. The programme is issued by the Federal Ministry for Economic Affairs and Energy (BMWi). It defines maximum possible incentive rates for all regions eligible for funding throughout Germany, which are published for each funding period as the ministry's map of assisted areas. The federation and the *Länder* finance the incentives 50:50, including investment grants and labour-related and R&D incentives. Public loans and public guarantees are available to domestic and foreign investors. Different incentives can be combined. In general, foreign and German investors have to meet the same criteria for eligibility. Small- and medium-sized enterprises (SMEs) are eligible to receive higher rates of funding than large corporations. The BMWi offers investment grants intended to improve business conditions in certain regions in Germany. The funding rules incorporate EU rules on national and regional aid into German law. The development banks of the individual federal states offer attractive interest rates, especially for SMEs. R&D incentives are provided by the EU, the German government and German state governments in the form of R&D grants, public loans and special partnership programmes. The next review of the GRW will be published before the end of the current funding period, no later than mid-2020.

Sources: European Commission, Germany Trade and Invest, Federal Ministry for Economic Affairs and Energy, Fitch Solutions

8. Taxation – 2021

- Value Added Tax: 19%
- Corporate Income Tax: 15.8%

Source: Federal Ministry of Finance

8.1 Important Updates to Taxation Information

- As part of its implementation of the Organisation for Economic Co-Operation and Development (OECD) recommendations developed in the Base Erosion and Profit Shifting Project in June 2017, Germany introduced a restriction on the deductibility of certain royalty payments to related parties to counter so-called harmful preferential tax regimes. The OECD allowed for an exemption of existing preferential tax regimes until June 2021, but in Germany the restriction on the deductibility of such payments to related parties applies from January 1, 2018, onwards.

- In addition to the OECD proposals, Germany has to consider various standards set by the EU. The Anti-Tax Avoidance Directive (EU-ATAD) has to be applied from January 1, 2019. In May 2017, the Council of the EU adopted a directive amending the EU-ATAD (ATAD II). Member states had to transpose ATAD II into local law by December 31, 2019, and apply it generally from January 1, 2020 onwards.

- At the EU level, an extension of the EU Mutual Assistance Directive with reference to the exchange of information on cross-border tax planning schemes (arrangements), including the imposition of disclosure requirements on intermediaries and taxpayers, was adopted in May 2018. The new rules must be implemented into domestic law by December 31, 2019, and will be applicable from July 1, 2020.

- In January 2021, the German Federal Government issued a draft bill on the modernisation of the relief from and the certification of withholding taxes. The bill specifically proposes substantial changes to the current German anti-treaty shopping rules taking into account requirements under EU law. The current German anti-treaty shopping rules are to a certain extent incompatible with the Parent-Subsidiary Directive and with the freedom of establishment. However, the proposed regulations will not lead necessarily to a more favourable taxation for taxpayers.

- Germany has announced a EUR130 billion COVID-19 stimulus package including a cut in the standard Value Added Tax (VAT) rate from 19% to 16% from July 1 to December 31, 2020. The reduced VAT rate of 7% will also be cut to 5%.

8.2 Business Taxes

Type of Tax	Tax Rate and Base
Corporate Income Tax (CIT)	15.825%, including the solidarity surcharge
Trade Tax	12.6% to 20.3%, depending on the location of the business establishment
Branch Tax Rate	15%
Withholding Tax (WHT)	- 25% on dividend income - 0% on royalties and - 25% on interest for residents; for non-residents a refund can be claimed for anything above the CIT rate)
VAT	Standard rate of 19%, but a lower rate of 7% applies to some goods and services, such as food and books, and certain transactions are zero rated
Social security contribution	Employers must deduct four types of insurance, with the contributions shared equally between employer and employee: 18.6% pension, 2.4% unemployment, 14.6% health and 3.05% invalidity
Real Property Tax	0.35% of tax value of property (rate varies by municipality)
Real Estate Transfer Tax	3.5-6.5%, levied on conveyancing of German property (rate varies by municipality)

Source: Federal Ministry of Finance
Date last reviewed: February 15, 2021

9. Foreign Worker Requirements

9.1 Working Permit

EU member citizens do not require a work permit, but their employer must inform the job office about their employment. Foreign nationals other than those from the EU or EEA and Swiss nationals may reside in Germany to take up gainful employment if they have a residence permit that explicitly authorises them to do so. Australian, Israeli, Japanese, Canadian, South Korean, New Zealand and United States citizens may obtain such a residence permit from the relevant authorities once they have arrived in Germany, but they may not commence their intended employment until they have the permit. All other foreign nationals must apply for a work visa from their local German mission before coming to Germany.

No work permit is needed by foreigners from outside the EU if they have a permanent residence or family reunion permit, have been granted asylum, study in the country, or have a Blue Card or Green Card.

9.2 Obtaining Foreign Worker Permits

Foreigners' access to the labour market is limited by the Ordinance on the Admission of Foreigners for the Purpose of Taking up Employment. In principle, access is limited to certain occupational groups and normally requires the approval of the employment authorities. However, there are numerous exceptions to this general principle, and in recent years various legislative measures have further liberalised access to the German labour market.

Access to the labour market remains limited for unskilled and low-skilled workers, but the legal barriers to working in Germany have been further reduced for highly qualified foreign nationals, such as university graduates.

9.3 Blue Card

Since August 2012, foreign nationals have had easier access to the labour market in Germany under the EU Blue Card system for highly qualified employees. A foreigner holding a Blue Card may reside in the country and work in the job for which the card was issued, or change that job under the conditions defined. High qualification means a duly completed university education or higher professional education that has lasted for at least three years. The Blue Card is issued with the term of validity three months longer than the term for which the employment contract is concluded, but for a maximum period of two years. The Blue Card can be extended. One of the conditions for issuing the card is a wage criterion – the employment offer must be for a position providing gross earnings of at least EUR53,600 (2019). The approval of the Federal Employment Agency is not required. In the case of highly qualified foreign nationals with a background in mathematics, IT, the natural sciences or technology, as well as medical doctors, EU Blue Card conditions still apply, provided that these people are offered the same salaries as comparable German employees and that their annual gross earnings are at least EUR41,808 (2019). The approval of the Federal Employment Agency is required.

Sources: Federal Foreign Office, European Commission, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	Aaa (Stable)	25/01/2019
Standard & Poor's	AAA (Stable)	13/01/2012
Fitch Ratings	AAA (Stable)	06/11/2020

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	20/190	24/190	22/190
Ease of Paying Taxes Index	41/190	43/190	46/190
Logistics Performance Index	1/160	N/A	N/A
Corruption Perception Index	11/180	9/180	9/180
IMD World Competitiveness	15/63	17/63	17/63

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index Rank	**3/201**	**5/201**	**3/201**
Short-Term Economic Risk Score	72.1	65.4	79.2
Long-Term Economic Risk Score	80.0	77.4	78.5
Political Risk Index Rank	**16/201**	**14/201**	**12/201**
Short-Term Political Risk Score	78.3	80.6	80.6
Long-Term Political Risk Score	87.2	87.1	88.1
Operational Risk Index Rank	**17/201**	**24/201**	**23/201**
Operational Risk Score	72.2	70.4	71.2

Source: Fitch Solutions
Date last reviewed: February 15, 2021

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK
Germany, the Euro area's largest economy, is forecast to record its worst performance in decades this year, owing to the Covid-19 pandemic and containment measures weighing heavily on domestic and foreign demand. The government's fiscal measures should cushion the fall somewhat. However, an extension of the crisis is a key downside risk and the ongoing requirement for some Covid-19 restrictions will weigh on activity in Q121. That said, Germany is in a strong position to rebound from the crisis, though there is little potential for a significant easing of Covid-19 related restrictions in Q121. A combination of warmer weather and the vaccine rollout will allow for a more pronounced loosening in Q221, paving the way for a strong recovery to take shape. Over the longer term, the main economic issue Germany faces is a declining population, which will pose many challenges for policymakers over the next decade and beyond. Other economic challenges stem from the need to reduce regulations

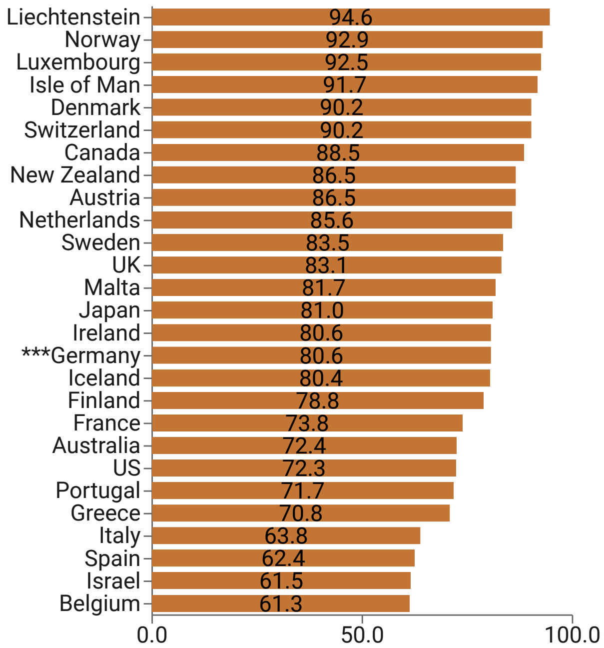
and costs, restructuring the domestic banking sector, managing the costs of an ambitious energy policy and playing a leading role in the future of the eurozone. As a highly open economy dependent on export growth, a weak outlook for wider eurozone growth and the potential for greater global protectionism over the coming decade also weighs on Germany's growth potential.

OPERATIONAL RISK
Although it is one of the most stable countries in the world with a strong logistics profile and highly skilled labour, Germany will face issues such as redefining its role in Europe and reducing risks stemming from an ageing population and lower productivity growth while balancing its immigration policies. Germany faces rising long-term labour market risks as the country faces a declining population, which will pose many challenges for policymakers over the next decade and beyond. The country benefits from strong export competitiveness and broad policy stability as the main political parties remain committed to market-friendly policies. As a highly open economy dependent on export growth, a weak outlook for wider eurozone growth and the potential for greater global trade protectionism over the coming decade will weigh on Germany's growth potential.

Source: Fitch Solutions
Data last reviewed: March 10, 2021

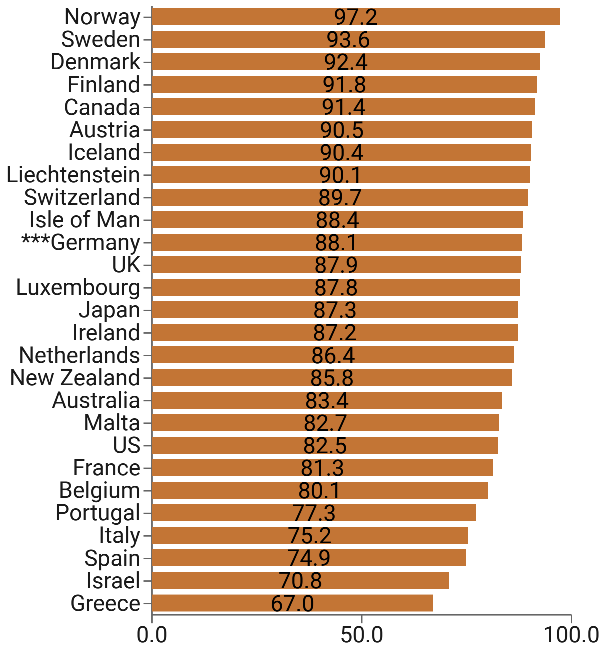
10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 15, 2021

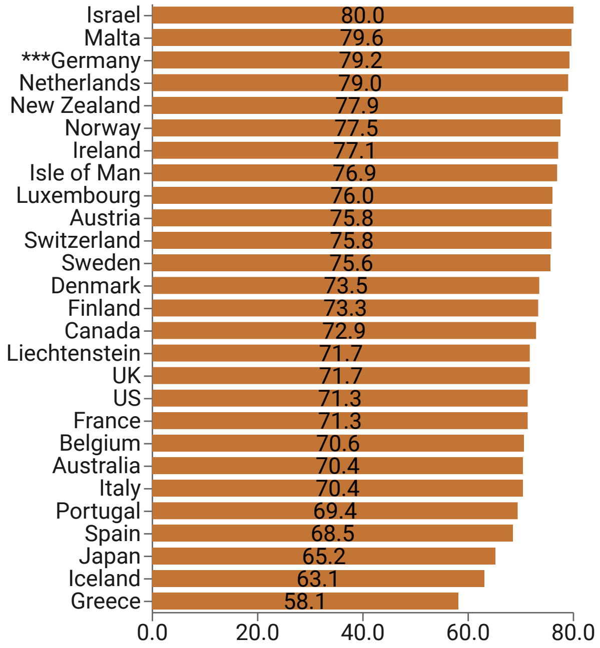
Long Term Political Risk Index



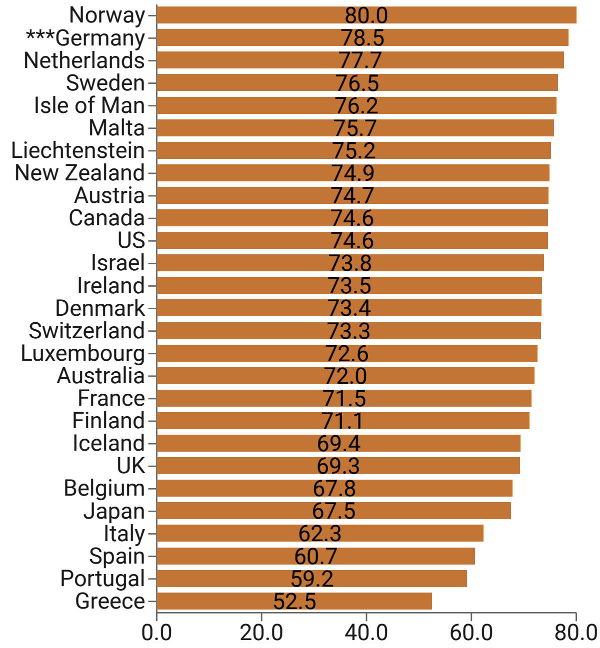
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 15, 2021

Short Term Economic Risk Index

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 15, 2021



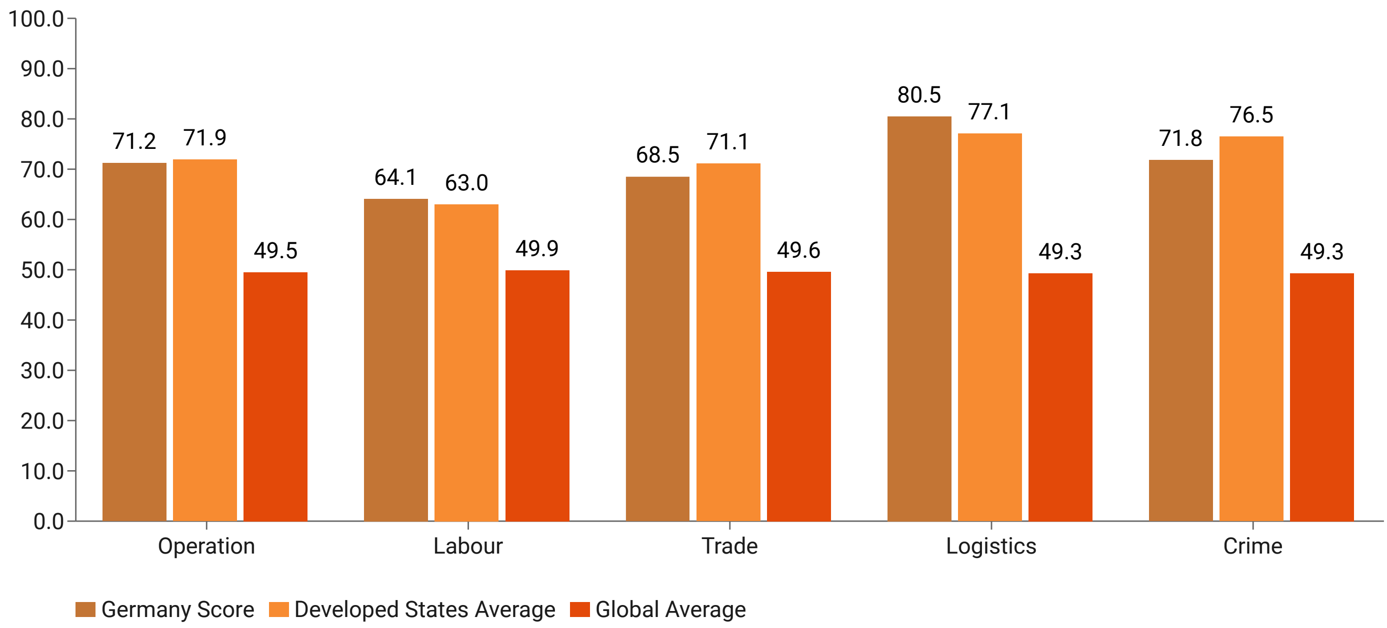
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 15, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Germany score	**71.2**	**64.1**	**68.5**	**80.5**	**71.8**
Developed states average	71.9	63.0	71.1	77.1	76.5
Developed states position (out of 27)	18	13	19	9	22
Global average	49.5	49.9	49.6	49.3	49.3
Global position (out of 201)	23	22	31	12	32

100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Operational Risk Index

Germany vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: February 15, 2021

Country/Region	Operatonal Risk	Labour Market Risk Index	Trade and Investment Risk Index	Logistics Risk	Crime and Secruity Risk Index
Denmark	79.2	71.8	77.5	84.9	82.4
Switzerland	78.6	75.3	77.7	78.4	83.1
Netherlands	77.9	66.4	78.5	86.4	80.4
United States	77.2	79.7	76.1	85.4	67.4
New Zealand	77.2	71.6	74.7	74.6	87.7
Sweden	76.8	67.5	77.7	83.3	78.5
Norway	75.9	63.5	72.3	79.7	88.3
Canada	75.9	73.2	74.0	78.5	78.0
United Kingdom	75.3	71.0	77.9	77.8	74.7
Austria	74.8	61.0	72.7	84.8	80.8
Luxembourg	74.4	55.9	78.2	83.9	79.6
Finland	74.1	54.1	73.2	85.4	83.7
Ireland	73.7	65.9	79.3	70.5	79.0
Australia	72.8	68.4	73.2	71.7	78.1
Spain	72.4	60.5	71.0	79.7	78.4
Japan	71.7	68.3	66.0	80.3	72.2
Belgium	71.4	56.6	76.1	79.9	72.9

Germany	**71.2**	**64.1**	**68.5**	**80.5**	**71.8**
France	71.1	60.2	71.1	81.4	71.9
Iceland	70.2	59.3	67.1	67.0	87.4
Portugal	69.7	52.3	67.5	80.1	78.9
Israel	68.2	72.2	68.2	69.9	62.5
Liechtenstein	64.8	48.9	63.2	69.9	77.1
Malta	63.9	55.2	68.9	62.3	69.3
Isle of Man	63.8	53.0	60.3	61.3	80.6
Italy	63.3	53.5	60.0	75.2	64.5
Greece	57.0	52.8	49.4	69.7	55.9
Developed Markets Averages	71.9	63.0	71.1	77.1	76.5
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

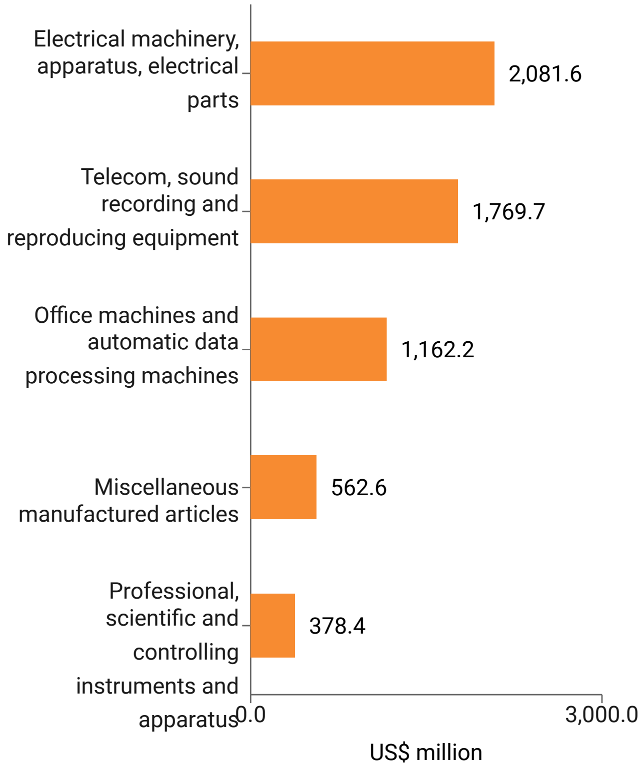
Date last reviewed: February 15, 2021

11. Hong Kong Connection

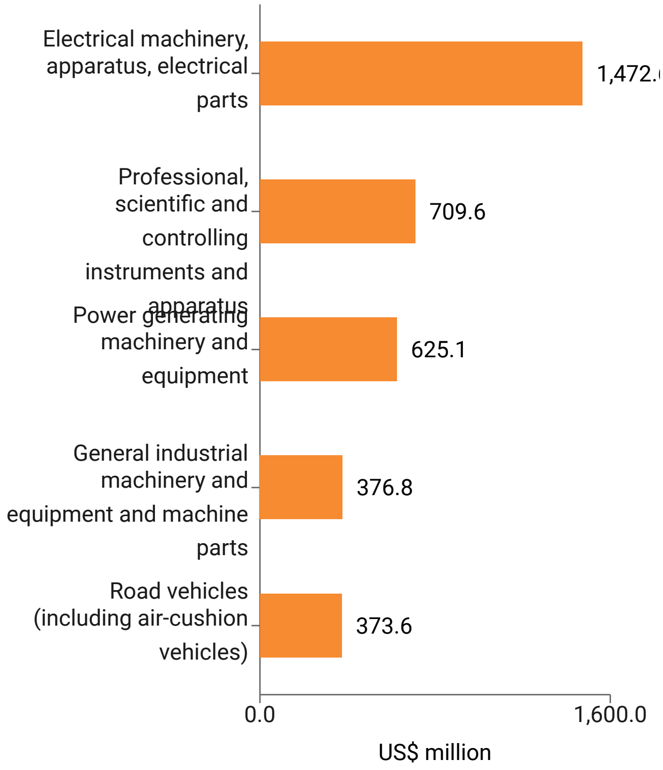
11.1 Hong Kong’s Trade with Germany

Major Export Commodities to Germany (2020)

Major Import Commodities from Germany (2020)

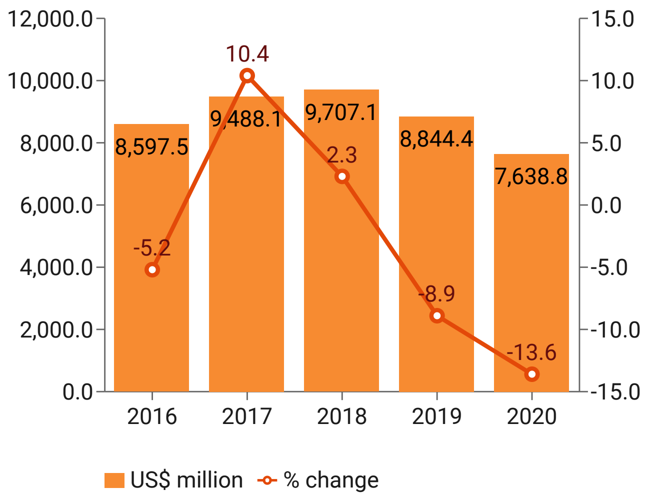


Note: Graph shows the main Hong Kong exports to Germany (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: February 15, 2021



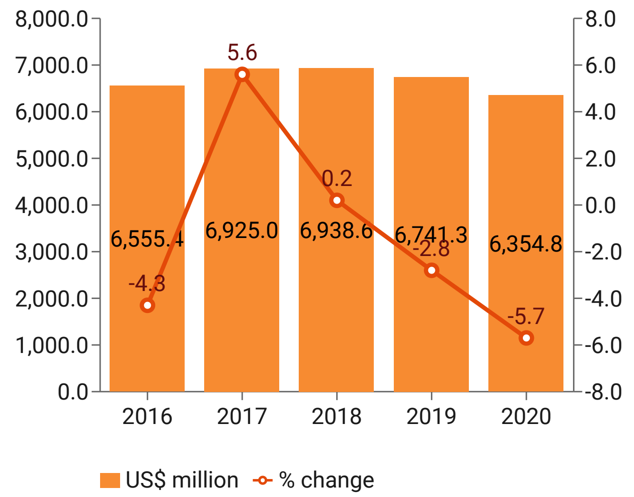
Note: Graph shows the main Hong Kong imports from Germany (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: February 15, 2021

Merchandise Exports to Germany



Note: Graph shows Hong Kong exports to Germany (by consignment)
Sources: Hong Kong Trade Statistics, Census & Statistics Department
Date last reviewed: February 15, 2021

Merchandise Imports from Germany



Note: Graph shows Hong Kong imports from Germany (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Solutions
Date last reviewed: February 15, 2021

Exchange Rate HK$/US$, average
7.76 (2016)
7.79 (2017)
7.84 (2018)
7.84 (2019)
7.76 (2020)

	2019	Growth rate (%)

Number of German residents visiting Hong Kong	217,779	-4.0
Number of European residents visiting Hong Kong	1,747,763	-10.9

Source: Hong Kong Tourism Board

	2019	Growth rate (%)
Number of German citizens residing in Hong Kong	2,556	29.5
Number of developed states citizens residing in Hong Kong	83,786	29.6

Note: Growth rate for resident data is from 2015 to 2019. No UN data available for intermediate years.
Sources: United Nations Department of Economic and Social Affairs – Population Division, Fitch Solutions
Date last reviewed: February 15, 2021

11.2 Commercial Presence in Hong Kong

	2019	Growth rate (%)
Number of German companies in Hong Kong	420	6.1
- Regional headquarters	97	-1.0
- Regional offices	152	9.4
- Local offices	171	7.5

Source: Business Expectation Statistics Section of the Hong Kong Census and Statistics Department

11.3 Treaties and agreements Between Hong Kong/Mainland China and Germany

- Germany does not have a bilateral treaty on the avoidance of double taxation with Hong Kong but has an agreement for the avoidance of double taxation on shipping income that came into force on January 17, 2005.
- Germany and Hong Kong have an investment promotion and protection agreement that entered into force on February 19, 1998.
- Germany has a BIT with Hong Kong that entered into force on February 2, 1998, and a BIT with Mainland China that entered into force on November 11, 2005.
- Germany has a tax treaty with Mainland China that has been applicable since January 1, 2017.

Sources: Department of Justice, Fitch Solutions, Trade and Industry Department, UNCTAD

11.4 Chamber of Commerce or Related Organisations

German Chamber of Commerce, Hong Kong
The German Chamber of Commerce is one of the largest European chambers of commerce in Hong Kong. It provides a wide range of services to its members and serves as a forum for networking, business development and opportunities in Hong Kong, Asia Pacific and Germany.

Address: 19/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong
Email: info@hongkong.ahk.de
Tel: (852) 2526 5481

Source: German Chamber of Commerce, Hong Kong

Consulate General of the Federal Republic of Germany
Address: 21/F, United Centre, 95 Queensway, Admiralty, Central District, Hong Kong
Tel: (852) 2105 8788 / 2105 8777
Fax: (852) 2865 2033

Sources: Consulate General of the Federal Republic of Germany, Hong Kong Protocol Division of Government Secretariat

11.5 Visa Requirements for Hong Kong Residents

- HKSAR passport holders are entitled to a visa-free entry to Schengen countries lasting no more than 90 days in any six-month period from the date of first entry in the territory of the member states.
- The Hong Kong Document of Identity (HKDI) are recognised by all Schengen countries. The holders of such documents, however, need to apply for a Schengen visa.

- For a long-term stay of more than 90 days, an application will need to be submitted and the process may take several months. There are 12 different types of visa.

Source: [Consulate General of the Federal Republic of Germany]
Date last reviewed: February 15, 2021

Related Topics

Germany | Western Europe | EU | GERMANY GDP | GERMANY ECONOMIC STRUCTURE | GERMANY EXTERNAL TRADE | GERMANY IMPORT | GERMANY EXPORT | GERMANY TRADE POLICY | GERMANY INVESTMENT POLICY | GERMANY TRADE AGREEMENT | GERMANY FDI | GERMANY TRADE WITH HONG KONG