Allianz SE

Group Communications

Media Release

Germany in a difficult growth environment

- Counter-trend after economic slump expected in third quarter
- Germany grows by 1.5 percent in 2018 and 1.7 percent in 2019
- Government debt below the 60 percent mark for the first time again
- Reforms can keep Germany on course for growth

Munich, December 12, 2018

The German economy has recently suffered a noticeable setback and forecasts are currently being revised downwards in a consecutive row. While various economic indicators had already indicated a slowdown in growth momentum over large periods of the year, the real gross domestic product grew solidly in the first half of the year. In the third quarter, however, the economy then plummeted.

This was mainly due to the automotive industry, which had considerable problems with the certification of vehicles according to the new WLTP emissions test procedure. Allianz Research assumes that these problems in the automotive sector will be largely resolved by the end of the first quarter of 2019 at the latest, and anticipates a countermove to the slump in growth in the third quarter for both the current and the coming quarter.

However, uncertainty about future economic developments due to the protectionist US trade policy and geopolitical risks remains considerable. Added to this is the uncertainty in Europe caused by Brexit and the difficult situation in Italy. Reason should, however, prevail and negotiations should help to avoid a noticeable escalation of conflicts.

All in all, Allianz anticipates that, despite the increased risks, overall economic capacity utilization in Germany will continue to increase in the coming year. However, with real GDP growth of 1.7 percent (2018: expected 1.5 percent), the rate of the previous years (2016 and 2017: 2.2 percent each) will no longer be reached.

"Despite the recent setback in Germany, the domestic economic environment suggests that the upswing will continue, albeit at a more moderate pace. This applies in particular to private consumption. The disposable incomes of private households will continue to grow quite strongly in nominal terms in 2019," said Michael Heise, Chief Economist at Allianz.

In 2018, too, the net balance of public finances is likely to have been higher than originally expected. Overall, Allianz expects a budget surplus of EUR 52.5 billion for 2018, which corresponds to 1.6 percent of German economic output. At 59.9 percent of gross domestic product, public debt is likely to have fallen below the 60 percent mark for the first time since 2001.

For the year 2019, strong expenditure growth in the region of 4 ½ percent is expected. This is essentially due to the pension policy measures already adopted as well as to investment measures and additional expenditure in the area of development aid. The degree of expan-

Allianz SE
Koeniginstr.28
80802 Munich; Germany
Phone: +49.89.3800.18475
Fax: +49.89.3800.2114
www.allianz.com/news

Chairman of the Supervisory Board: Michael Diekmann.
Board of Management: Oliver Bäte, Chairman;
Sergio Balbinot, Jacqueline Hunt, Dr. Helga Jung, Dr. Christof Mascher, Niran Peiris, Iván de la Sota, Giulio Terzariol, Dr Günther Thallinger, Dr. Axel Theis (Release 04.2018).
For VAT-Purposes: VAT-Registration Number: DE 129 274 114; Insurance services are exempt from VAT.
Allianz SE, Munich, Comm.Reg.: Munich HRB 164232

sion of German fiscal policy will continue to increase in 2019. The budgetary impact of the fiscal policy measures adopted to date will be around 0.6 to 0.7 per cent of GDP in 2019 (after 0.2 per cent of GDP in the current year). The budget surplus will fall noticeably. With a forecast of EUR 35.5 billion or 1 percent of GDP, however, it will remain substantial.

"Economic policy reforms are needed to keep the economy on course for growth in an increasingly difficult environment. The high budget surpluses of the public sector provide financial room for maneuver. The main problem is that the coalition agreement does not provide for tax cuts. In view of significantly reduced growth prospects, however, coalition members should not be deterred from necessary reforms. A tax policy that increases the net income of private households and makes Germany more attractive as an investment location will strengthen growth through higher private consumption and investment expenditure. What is good for Germany will also help our European partners, who urgently want stronger impulses from Germany," said Heise.

You can find the study on our homepage:
https://www.allianz.com/en/economic_research/publications/insights.html

For further information please contact:
Dr. Lorenz Weimann Tel. +49.69.3800-16891, e-mail: lorenz.weiman@allianz.com

ABOUT ALLIANZ

The Allianz Group is one of the world's leading insurers and asset managers with more than 86 million retail and corporate customers. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing over 650 billion euros on behalf of its insurance customers while our asset managers Allianz Global Investors and PIMCO manage an additional 1.4 trillion euros of third-party assets. Thanks to our systematic integration of ecological and social criteria in our business processes and investment decisions, we hold the leading position for insurers in the Dow Jones Sustainability Index. In 2017, over 140,000 employees in more than 70 countries achieved total revenue of 126 billion euros and an operating profit of 11 billion euros for the group.

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.