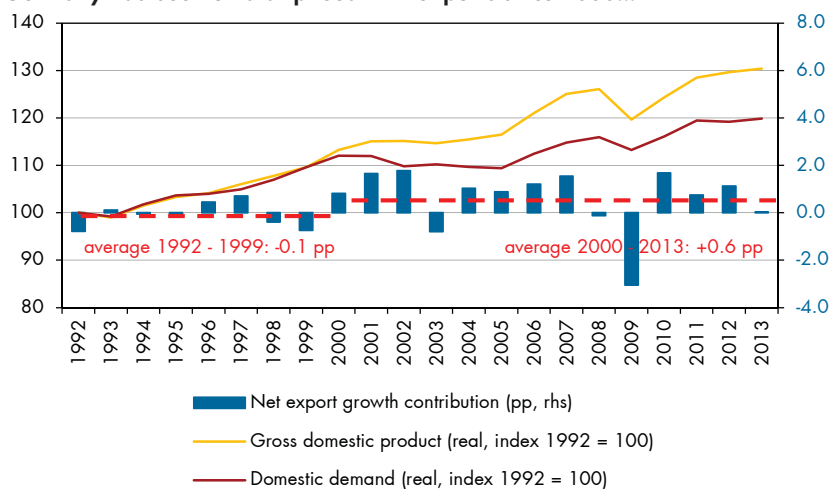


Germany: "Half drew she him, half sank he down"



Since the euro was introduced back in 1999, the structure of German economic growth has changed drastically: from a mostly domestically-shaped increase in economic output ever since the German reunification towards a strong export orientation. Thus, net exports make up about 50% of the real GDP growth recorded since 1999. On the other hand, between 1991 and 1999 net exports arithmetically did not contribute to the increase in economic performance.

Germany has been on a drip-feed with exports since 2000...

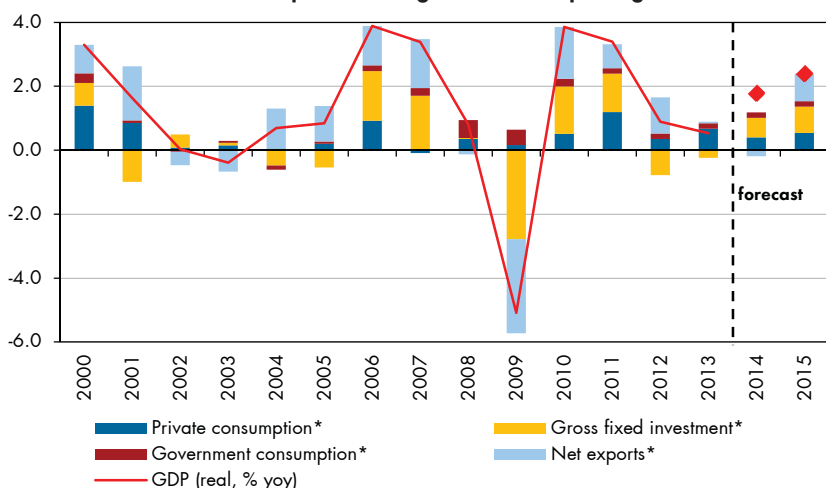


Source: Thomson Reuters, Raiffeisen RESEARCH

Germany is highly dependent on exports also in the current upswing

During the current upturn Germany remains heavily dependent on exports, too. After these had virtually stagnated in 2013, for the current and the next year we expect a jump of around 5% and 7%, respectively. The rising foreign demand should result also in higher equipment investment over the next few quarters. Moreover, the simultaneously - with respect to the economic development of Germany - far too loose monetary policy of the ECB will very likely lead to a strong

...and relies on external help also during the current upswing



*Growth contribution in percentage points
Source: Thomson Reuters, Raiffeisen RESEARCH

Financial analyst

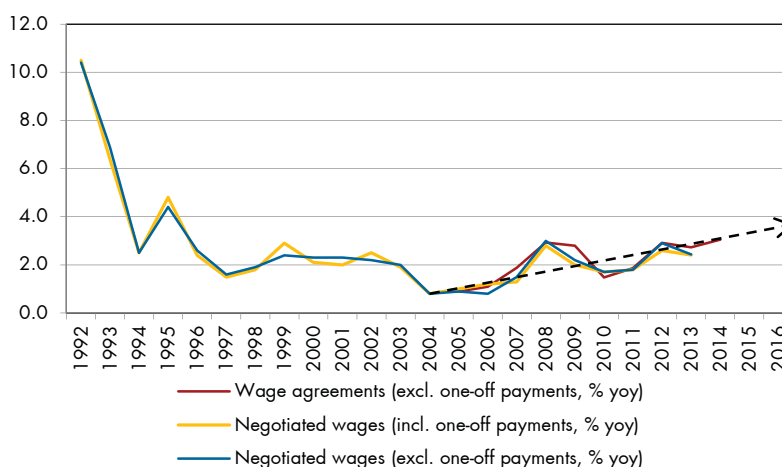
Jörg Angelé, CIIA
joerg.angele@raiffeisenresearch.at

pick-up in construction investment both this and next year. In total, this should be enough for real GDP to expand by around 2% in 2014 and by significantly more than 2% in 2015.

Private consumption is gaining traction only very slowly

By contrast, personal consumption churns to life only very slowly and will contribute to GDP growth by just 0.5 percentage points this year. However, this could change in 2015 and 2016. On the one hand, the latest collective wage agreements indicate a higher wage increase for the next few years. On the other, the uniform minimum wage of EUR 8.5 coming into effect in 2015 or 2016 will boost disposable income considerably.

Personal consumption could slowly gain momentum thanks to rising wages



Source: Bundesbank, WSI Tarifarchiv, Raiffeisen RESEARCH

Minimum wage and high wage agreements probably will increase price pressures

Whether and how much the uniform minimum wage will spur personal consumption in the end is however difficult to estimate.¹ We do not expect more than a 2% yoy increase. Compared to the average annual growth rate of 0.7% between 2001 and 2013, this is indeed a substantial rise, yet one still cannot speak about boom in consumption. Although there are signs that the employees who benefit from the minimum wage will in fact spend their higher incomes for consumption purposes and not save them, the introduction of the minimum wage will likely cause a tangible jump in consumer prices, however. Especially low-skill services (industrial cleaning, catering and hotel industry, hairdressing, retail, private transport sector, etc.) and unprocessed food (local fruits and vegetables, meat) could in part become dramatically more expensive. The bottom line is that the purchasing power of all consumers will be curtailed. If global economy continues running smoothly in 2016 as well, real GDP could nevertheless advance by significantly more than 3% thanks to the rising personal consumption.

The German economy is heading into overheating

As gratifying as the economic outlook for the next few years sounds, one has to evaluate the expected development with just about the same degree of criticism. Given a potential growth rate of 1.25% up to 1.5% and an almost closed output gap, it quickly becomes clear that the German economy could slide into a period of significant overheating in the next three to four years due to far too loose monetary policy and too expansionary fiscal policy². Ironically, this is exactly the policy mix that has led to bubble phases in some peripheral countries following the euro introduction. Therefore, in the worst case Germany is heading for a housing price bubble and a noticeable surge in inflation. The stronger the economic ex-

¹ For a detailed analysis about minimum wages, we refer to publications of (among others) the DIW, the ifo Institute and the RWI.

² The originally planned debt reduction for the years 2016-2018 was removed from the draft budget of the federal government in early April as the initially expected budget surpluses are now being eaten up by, among other things, the costly pension plans (retirement at the age of 63, "Mütterrente").

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

Disclaimer

Publisher: Raiffeisen Bank International AG

Supervisory authority: Austrian Financial Market Authority (FMA)

This document is for information purposes and may not be reproduced or distributed to other persons. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Austrian Capital Market Act (KMG) or the Stock Exchange Act or any other comparable foreign law. An investment decision in respect of a security, financial product or investment must be made on the basis of an approved, published prospectus or the complete documentation for the security, financial product or investment in question, and not on the basis of this document.

This document does not constitute a personal recommendation to buy or sell financial instruments in the sense of the Securities Supervision Act. Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase or sale of a security, investment or other financial product. In respect of the sale or purchase of securities, investments or financial products, your banking advisor can provide individualised advice which is suitable for investments and financial products.

This analysis is fundamentally based on generally available information and not on confidential information which the party preparing the analysis has obtained exclusively on the basis of his/her client relationship with a person.

Unless otherwise expressly stated in this publication, RBI deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness.

In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments can be influenced by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made on the basis of the information contained in this document.

The information in this publication is current, up to the creation date of the document. It may be outdated by future developments, without the publication being changed.

Unless otherwise expressly stated (<http://www.raiffeisenresearch.at/spezialvergütung>), the analysts employed by Raiffeisen Bank International AG are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBI, which includes, inter alia, earnings from investment banking and other transactions of RBI. In general, RBI forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, unless such acquisition is authorised in advance by RBI's Compliance Department.

RBI has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBI has designated fundamentally binding confidentiality zones. Confidentiality zones are typically units within credit institutions, which are delimited vis-à-vis other units by organisational measures covering the exchange of information, because compliance-relevant information is continuously or temporarily handled there. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer.

SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK) AND JERSEY (CHANNEL ISLANDS): This publication has been approved or issued by Raiffeisen Bank International AG (RBI) in order to promote its investment business. RBI London Branch is authorised by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the Financial Services Authority (FSA). Details on the extent of the London branch's regulation by the Financial Services Authority are available on request. This publication is not intended for investors who are retail customers within the meaning of the FSA regulations and should therefore not be distributed to them. Neither the information contained in this document nor the opinions expressed herein constitute or are to be construed as an offer or a solicitation to purchase (or sell) investments. RBI may have effected own-account transactions within the meaning of the FSA regulations in any investment mentioned herein or related investments and may thus have a position or holding in such investments as a result. RBI may act or have acted as the manager or co-manager of a public offering of any security mentioned in this report or any related security. The RBI Jersey marketing representative office is not regulated by the Jersey Financial Services Commission as it does not perform any financial services in Jersey as defined by the Financial Services (Jersey) Law 1998 (FSJL).

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U.S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), but was prepared by our non-U.S. affiliate, Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1133 Avenue of the Americas, 16th Floor, New York, NY 10036, 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority (FINRA) in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 [the 'Securities Act']), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer; it shall in no way affect the legality, validity or enforceability of the remaining terms.

Acknowledgements

Global Head of Research:

Peter Brezinschek (1517)

Top-Down CEE Banking Sector:

Gunter Deuber (5707), Elena Romanova (1378)

Research Sales:

Werner Weingraber (5975)

Economics, Fixed Income, FX:

Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Eva Bauer (5644), Gunter Deuber (5707), Wolfgang Ernst (1500), Stephan Imre (6757), Lydia Kranner (1609), Matthias Reith (6741); Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:

Christoph Klaper (Head, 1652), Michael Ballauf (2904), Jörg Bayer (1909), Igor Kovacic (6732), Martin Kutny (2013), Peter Onofrej (2049), Manuel Schreiber (3533), Lubica Sikova (2139), Jürgen Walter (5932)

Publisher: Raiffeisen RESEARCH GmbH, A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07-1521

Editorial Department: Raiffeisen RESEARCH / RBI A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07 - 1521

Stocks:

Helge Rechberger (Head, 1533), Aaron Alber (1513), Christian Hinterwallner (1633), Jörn Lange (5934), Hannes Loacker (1885), Johannes Mattner (1463), Christine Nowak (1625), Leopold Salcher (2176), Andreas Schiller (1358), Connie Schümann (2178), Christoph Vahs (5889)

Quant Research/Emerging Markets:

Veronika Lammer (Head, 3741), Björn Chyba (8161), Judith Galter (1320), Dagmar König (8017), Andreas Mannsparth (8133), Manuel Schuster (1529), Stefan Theußl (1593)

Technical Analysis:

Robert Schittler (1537), Stefan Memmer (1421)

Layout:

Birgit Bachhofner (3518), Kathrin Rauchlatner (1518)

Translation:

David Wietstruk (6781), William Burton, Ventsislav Mishev, Sarah Fleissner, Benjamin-Zsolt Zombori