

FROM BUST TO BOOM



1

Warm-up

Which products/industries do you associate with Germany?

2

Vocabulary - Finance and investment

Complete the sentences with the words below:

asset

bailout

capital controls

deficit

emerging

inflation

peg

powerhouse

recovery

boom

1. A **boom** is a sudden period of economic growth. The opposite is a 'bust'.
2. The government spent more money than it received. The _____ was over \$200 million.
3. Japan is traditionally the most successful economy in East Asia. It is the _____ of the region.
4. After asking for financial help from the government, the bank received a _____ of \$10 billion.
5. Investors are interested in _____ markets such as China and India, which are undergoing a process of economic growth and industrialisation.
6. Some countries _____ their currencies to the dollar in order to stabilise them.
7. In order to prevent people from taking their funds out of the country, some governments introduce _____ - for example banning transfers from domestic to foreign bank accounts.
8. Any item of economic value, owned by an individual or company, is called an _____.
9. After a long recession, the economy is finally showing signs of _____.
10. Prices are rising rapidly - the country has high _____.

Predict the answers

Decide if the statements are true or false. Read the article to check. Correct the statements that are false.

1. Germany is the powerhouse of the European economy.
2. Unemployment in Germany is increasing.
3. China is a bigger exporter than Germany.
4. China pegs its currency to the euro.
5. Germany has introduced capital controls to fight inflation.



Boom time for investors in Germany

Economic fundamentals and solid exports are driving Europe's top performer.

1. Many European fund managers are now turning their attentions to the west and praising Germany as the one of the best investment opportunities around.
2. The troubles of the banks and the huge deficits of the so-called Pigs (Portugal, Ireland, Greece and Spain) nations has focused the minds of investors on the fundamentals of exports, economic strength and workforce skills. And by these measures, Germany is truly the powerhouse of the European economy.
3. "This concept of how you can have a boom and a bust coexisting is quite a difficult one for investors to understand, but Germany is booming," says Barry Norris, the manager of the Ignis Argonaut European Alpha Fund, which has increased its exposure to Germany holding 35 per cent of its assets in the country.
4. With struggling economies and bailouts elsewhere in Europe, investors could be forgiven for steering clear. But Mr Norris argues that this shouldn't distract people from this investment opportunity.
5. "Over the past five years, the unemployment rate in Germany has come down every year, which is a good sign of its competitiveness. Exports are back up to a record level and it is now neck and neck with China as the world's biggest exporter," he says.
6. As currency traders dump the euro in light of the debt crisis, German exporters are taking advantage. With a strong euro, German products become expensive and difficult to shift, but with a weakened euro, German companies are able to sell more of their goods abroad. Companies such as BMW, for example, are benefiting from high demand in emerging markets, and because China pegs its currency to the US dollar, the weakened euro has boosted profits for German manufacturers.
7. As well as healthy export figures, falling unemployment levels seem to have caused German consumers to spend more too.
8. All of these factors have led to such a strong recovery in Germany that economists are debating whether the level of growth will be higher than their forecasts. Mr Norris compares this potential level of growth to that of an emerging market, but adds that Germany has several important advantages over developing economies.
9. Firstly, investors can enjoy cheaper stock prices because the boom is still relatively undiscovered. In contrast to China, for example, investors are not yet expecting massive growth which is reflected in valuations of stocks. Secondly, whereas authorities in emerging-market economies are raising interest rates and introducing capital controls to fight inflation, as a euro member, Germany is continuing with low interest rates despite its strong economy. As the economy goes from strength to strength, German asset prices will also rise.
10. While an exciting prospect for investors, investing heavily in Germany also carries considerable currency risk and any European assets could plummet if Greece, Ireland and Portugal cannot repay their debts. This is where the old investment rules ring true: where there is any uncertainty, diversification is the best way to spread risk.
11. "It certainly pays to be selective when investing in Europe at the moment. Having wide exposure to the entire European market means investing in some very troubled economies as well as those, such as Germany, with better prospects," says Mr Bamford of independent financial adviser Informed Choices.

Adapted from The Independent, by Chiara Cavaglieri and Julian Knight, 5 December 2010

4**Checking understanding**

Answer the following questions in your own words:

1. By which economic factors is Germany the powerhouse of Europe?
2. What has caused the euro to weaken?
3. Why are German companies able to sell more goods abroad?
4. What has caused an increase in consumer spending in Germany?
5. Why might potential investors consider Germany to be more attractive than emerging economies?
6. Why is it also risky to invest in Germany? What investment strategy can reduce this risk?

5**Find the words**

Find a word or phrase in the article which means...

1. very large (**adj.**, P2) _____
2. existing at the same time (**verb -ing**, P3) _____
3. avoiding something (**idiom**, P4) _____
4. on the same level (**idiom**, P5) _____
5. sell something that you don't want (**verb**, P6) _____
6. becomes more and more successful (**idiom**, P9) _____
7. fall rapidly (**verb**, P10) _____
8. seems to be true (**idiom**, P10) _____

6**Phrases in the text**

Match the following words to form phrases from the text and create a sentence for each collocation:

- | | |
|----------------|-------------|
| 1. a huge | a. deficit |
| 2. high | b. demand |
| 3. a strong | c. exposure |
| 4. massive | d. growth |
| 5. an exciting | e. prospect |
| 6. wide | f. recovery |

7**Talking point**

How attractive is your country for potential investors. Describe the advantages and disadvantages using vocabulary from the lesson.