



The Financial Crisis and its Effects on the Medicine Technology Sector

The global financial crisis has gripped each and every business sector. Turnover is expected to fall even further, whilst more and more employees find themselves out of work. But does this also apply to the medicine technology sector, which has traditionally been less susceptible to business fluctuations?

Ralf Schuster, 2nd Chairman of the GHE and Departmental Manager of Landesbank Berlin AG answers this and many other important questions concerning the financial crisis and its effects on the medicine technology sector.

The German Federal Statistics Office has noted a sharp decrease in exports. Overall, exports have dropped by 2.5 percent compared to last year. Do you think that this is linked to the financial crisis?

Ralf Schuster: There can be no doubt that the financial crisis has arrived in the real economy. Even exports, which have acted as a crutch for the German economy for so long, are beginning to suffer the effects of a global reduction in demand. The USA and Europe – including Germany – find themselves at the centre of a recession, which could well be the most difficult time since the 1970s. The financial crisis is behind this, given that it leads to credit cuts and price increases for companies, the so-called credit squeeze, and a loss of trust in general, which negatively influences investment behaviour. In addition to this, states with high trade deficits see themselves as forced to implement fiscal countermeasures, which only serve to strengthen the economic recession further.

To what extent is the medicine technology sector also affected?

Schuster: Every sector has been affected by the financial crisis, although varying time delays cause it to hit branches at different times. Concerning the so-called early cycle sectors, such as the automotive and consumer goods industries, the effects of the crisis have already taken full effect. In general, medicine technology is less cyclical, and the effects continue to be moderate in comparison. Nevertheless, even medicine technology will be unable to avoid the crisis. Despite all international and national state countermeasures, the continuation or even deterioration of the recession well into 2009 seems inevitable. Even the emerging markets, which some experts even recently believed would escape the industrial states' recession, are beginning to detect clear signs of a crisis - declining investment, pressure on the national currency, decreasing income as a result of falling raw material prices and drastic credit price increases. All of this will inevitably lead to cuts in expenditure and decreasing imports, even in the medicine technology sector. It is not yet possible to give a concrete prognosis, since individual companies have not released any predictions for the coming business year. In general, forecasts predict a revival in the economy at the end of 2009.

Despite this, is it possible that the medicine technology sector experiences the crisis on a less severe level than other branches?

Schuster: There are definitely reasons which support the 'soft-landing' theory within the medicine technology sector. Firstly, we can assume that in this sector, budgeting is carried out on a long-term basis and therefore, fluctuations in demand are rare. In addition, the dollar exchange rate has developed in favour of German companies, with the result that exports to other currency zones are cheaper for importers. Another stabilising factor is undoubtedly posed by demographic change. The global population continues to grow, leading to



subsequent increases in demand for medicinal care. Nevertheless, I specifically want to warn against expedient optimism and the hope of an exceptional situation within the medicine technology sector. Especially in the emerging markets, the demand for first-class medicinal care only really increased at the end of the economic cycle. This was primarily a result of 'cheap money'. As I have already mentioned briefly, the sector's export success could be endangered by a new protectionism – the introduction of trade barriers – coupled with a major devaluation of currencies from emerging markets, and the resulting massive loss in purchasing power.

In your opinion, what can companies do to continue exporting successfully?

Schuster: With every crisis comes chance. The lowered raw material prices should have a positive medium-term effect on the production costs for many companies, whilst serving to increase competitiveness. It is also immensely important to keep one's ear to the ground within buyer markets in order to be able to react quickly to developments, such as drops in the credit rating of long-standing buyers, the introduction of new importation regulations and so on.

Foreign revenue of manufacturers will also decrease in the medicine technology sector. Which role is played here by the Asian countries which have proven themselves as extremely stable markets up until now? Is this the future market, especially for medicine technology product exportation?

Schuster: The financial crisis has also reached Asia. China is no longer recording double-figure growth rates, Japan is recession. The economically weaker Asian countries have been sucked into such developments. Now is the time to follow the development of these markets extremely closely, in order to identify which Asian country has the best crisis management structures and can therefore overcome the crisis quickest. Asia is destined to become an interesting market with huge potential in the future. In the meantime, however, the medicine technology sector will notice a distinct drop in demand. Please also consider that high currency reserves alone cannot protect the sector from the effects of the financial crisis. The abatement of economic activity, coupled with a devaluation of the country's currency, would serve to reduce even the highest of currency reserves for the foreseeable future. The perfect example here is Russia, which lost almost 100 billion USD, approximately 20% of its currency reserves, within a short space of time in order to prop up the currency and domestic economy. Despite this, the country is still to see any real results.

What does the financial crisis mean for an exportation association like the GHE?

Schuster: The GHE offers a platform where members can exchange and discuss their experiences. At our regular meetings, we discuss current topics in order to give all of members the opportunity to participate. This is particularly helpful during times of slow business activity, since it offers the possibility to punctually identify both risks and chances. Let me give you a concrete example. In these difficult times, the credit rating of a long-standing client could drop almost over night, for instance when access to credit is no longer guaranteed or incurs even higher credit costs as a result of strain on liquidity at the company's bank. You watch your long-term business partners landing in financial problems through no fault of their own. Such developments cannot be foreseen by GHE members, but they can inform each other of individual cases and payment delays or failures.

Does it make more sense than ever to become a member now?



Schuster: An association like the GHE favours continuous, lively exchange between members, not only in times of crisis. There is therefore no perfect time to join. In general, people tend to look for the protection of a strong association against a backdrop of crisis, usually because the information they receive is confusing, which in turn complicates the development of concepts and the necessary adaptation of business strategies. Let me put it simply: the GHE contact network makes sense all the time.