

Country Insight Snapshot

Germany

January 2022





Overall Country Risk Rating: DB2b

Last change: March 2020



Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

Rating Outlook: Deteriorating

WorldWatch Headline

Inflation hit a 30-year high in December and the country is experiencing a severe Covid wave, resulting in a 'deteriorating' rating outlook.

Recent Changes

- Inflation hits a 30-year high in December.
- On the back of increasing headwinds from Covid and unusually elevated inflation levels, we have lowered the short-term economic outlook score (from Db3c to DB3d).
- Coalition talks between the centre-left SPD, the Greens and the free-market Liberals led to Olaf Scholz (SPD) becoming chancellor in December.

Events to Watch

- Even before the emergence of the new omicron strain, Covid cases had been rising rapidly, leading to the reintroduction of lockdown measures by several German states.
- High inflation could pass through wages in Germany's collective bargaining systems.
- By the end of 2022, Germany will have switched off all of its nuclear power plants; nuclear energy accounts for about 13% of German electricity supply.

Call to Action

- Note that, despite the clouding economic outlook, Germany remains one of the lowest risk countries in our 132-country portfolio; credit risk is particularly low.
- Factor in that the average payment delay stood below one week in Q3 2021 - half the European average.
- Usual terms are 30 days and we recommend using OA terms.
- That said, with an increase in the number of business failures in 2022 likely, [counterparty risk should be assessed thoroughly](#) in order to reduce exposure risks.



Country Insight Headlines

Credit Environment

Score: DB3a



Last change: December 2021 (DB2d→DB3a)

Rating Outlook: Stable

Risks and Opportunities

- Germany's credit environment is sound and the outlook for it is 'stable'.
- Usual payment terms are 30 days - low by international standards.
- Latest available data from our Worldwide Network shows that the average Q3 payment delay in Germany stood at 6.5 days beyond agreed terms (Q2: 6.7 days).
- This compares favourably with the European average of 13.8 days and, unlike in other countries, payments performance in Germany has not deteriorated during the pandemic.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	OA
Usual Terms	0-30 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available

Source: Export Credit Agencies

Call to Action

- Watch the risk of non-payment (with the help of [Business Credit Reports](#)): after drops in 2020-21, the number of insolvencies is likely to increase in 2022.
- Given the high oil and gas prices, assess the creditworthiness of energy-intensive companies.
- Note that business dynamism was up by 9.3% y/y in Q1-Q3 2021, indicating a possible booming start-up scene.
- Take into account that export credit cover is available from all major insurers, thereby limiting risks when doing business with Germany-based counterparties.



Supply Environment

Score: DB2b



Last change: October 2021 (DB2a→DB2b)

Rating Outlook: Deteriorating

Risks and Opportunities

- The country's supply environment is generally sound, as infrastructure is well-developed and natural disasters are infrequent.
- The semiconductor shortages have affected the car industry by imposing certain production cutbacks and suspensions.
- Capacity utilisation dropped to 85.1% in Q4 2021, from 87.3% in Q3.
- Producer prices rose 18.2% y/y in the three months to November, as bottlenecks increased the prices of intermediate inputs/components.
- A rise in Covid cases has led to the reimplementation of some lockdown measures, but the adverse supply-chain impact is much smaller than during the 2020 lockdowns.

Call to Action

- Be aware that the country currently lacks 60k-80k lorry drivers (with the figure increasing by 15k every year), thereby putting a strain on road-based supply chains.
- Note that manufacturers' inventories are depleting quickly and that industrial production growth has dropped to 2.5% y/y, the lowest reading in six months.
- Take into account that more than 70% of all German retailers are reporting supply-chain disruption, ranging from 49% in the food sector to 100% in the toys sector.



Market Environment

Score: DB2c



Last change: January 2022 (DB2b→DB2c)

Rating Outlook: Stable

Risks and Opportunities

- Producer prices in Germany rose by 18.2% y/y in the three months to November - the fifth consecutive double-digit increase.
- This indicates rising consumer prices in the coming quarters.
- Germany's export-led growth model leaves it vulnerable to external shocks, especially in the manufacturing sector.
- The recent introduction of restrictions in China could weigh on production.
- The Composite Purchasing Managers' Index came in at 50 points in December, down from 52.8 points in November and 52.0 points in October.
- This was the second lowest reading since February.
- The number of job vacancies decreased to 794k in December, down from 808k in October and November, indicating that hiring has become slightly less difficult.

Call to Action

- Count on rising wages, with the new government announcing plans to raise the country's minimum wage from EUR9.60 per hour to EUR12 by 2023.
- Expect inflation to stay at currently elevated levels for another one to three quarters.
- As the economy is still growing, [look for opportunities](#) in the country's large pool of SMEs.
- Amidst the reintroduction of Covid restrictions, stay informed about the available financial support measures.



Political Environment

Score: DB1d



Last change: October 2021 (DB1c→DB1d)

Rating Outlook: Stable

Risks and Opportunities

- Germany is a stable parliamentary democracy and political risk is generally low, even by European standards.
- Elections in late September ended with a defeat of Angela Merkel's Christian Democratic Union (CDU); after 16 years in power, her party lost the chancellorship.
- Since December, Olaf Scholz, finance minister under Merkel, has led a coalition government comprising his centre-left SPD, the Greens and the free-market Liberals.
- Expropriation risk is virtually non-existent and on the rare occasion that it occurs (normally for infrastructure projects), market-adequate compensation is paid.

Call to Action

- Olaf Scholz, the new chancellor, is an experienced mainstream politician; expect Germany's consensus-driven model and diplomatic attitude to continue.
- With the Greens being included in the new government, assess your exposure to environmentally harmful businesses closely, as taxes are likely to rise.
- The Liberals support deregulation and more investment in ICT: monitor the new government's agenda in these fields, but expect limited progress.
- Assume that political risk insurance in Germany will remain unnecessary for the foreseeable future, despite the end of Angela Merkel's 16-year chancellorship.



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