

Country Insight Snapshot

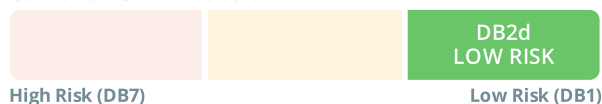
Germany

July 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: April 2023 (DB3a → DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

WorldWatch Headline

A tighter fiscal stance set out in Germany's 2024 budget, together with high interest rates, will support disinflation; however, these factors will also weigh heavily on businesses and consumers.

Recent Changes

- The overall country risk rating remains at DB2d; despite Germany slipping into a mild recession, we are unlikely to see a huge deterioration in the economy in the short term.
- In May 2023, industrial production fell 0.2% m/m, following 0.3% growth in April, putting Germany on course for a soft Q2.
- The German cabinet has approved the first draft of the 2024 budget and fiscal plans through to 2027; the proposals put an end to expansive fiscal policy and a return to the debt brake that limits the budget deficit to 0.35% of economic output.
- Survey data continues to make for grim reading; in June, the ZEW indicator of the current economic situation collapsed, although this is likely, in part, a response to the news of recession.
- Two newly released reports – the National Security Strategy and the Strategy on China – identify Russia and China as growing threats, which may inadvertently raise retaliatory actions against Germany.
- The right-wing Alternative for Germany (AfD) continues to rise in popularity as the governing coalition wobbles; in June, it won a district council election in Sonneberg, and national polling puts it at 20% of overall votes.

Events to Watch

- The ECB's hawkish turn should be monitored; between August 2022 and June, the bank increased the main refinancing rate from 0.5% to 4.0%, drastically tightening financial conditions.
- ECB President Christine Lagarde said that it is highly likely that the rate would be raised further at the meeting on 27 July.
- Pressure on input prices is falling, but supply chain disruption in the chemical and pharmaceutical sectors remains possible.
- Pressure on the Green Party is mounting following policy setbacks, poor polling and its leader's fall from grace.
- The governing coalition is looking shaky at the same time as the right-wing AfD continues to rise in polls.

Call to Action

- Closely watch the cash flow of energy-intensive companies.
- Expect consumer spending to be adversely affected as the cost of living increases.
- Hedge against FX risk due to a relatively weak – but volatile – euro.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: December 2022 (DB3c → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The credit environment outlook is set at 'stable', reflecting stability in many of the risk areas comprising this category, such as transfer risk, FX risk and business continuity.
- Continued negative or slow growth, tight monetary policy and elevated input prices will affect the profitability and solvency of businesses across various sectors.
- Continued interest rate hikes could strengthen the euro against the US dollar, especially as the Fed held steady in June, posing risks to the region's growth outlook and potentially reducing exporters' competitiveness; in mid-July, the exchange rate was around EUR1.12:USD1.
- Dun & Bradstreet's sectoral data shows a contained but generalised increase in risk across all sectors.

Trade Terms

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

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Ekspost Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Full cover available

Source: Export Credit Agencies

Call to Action

- Assess the creditworthiness of energy-intensive companies given high (and likely increasing) oil and gas prices.
- Take into account that export credit cover is available from all major insurers, thereby limiting risks when doing business with Germany-based counterparties.
- Monitor the possibility of further interest rate hikes in the eurozone over the next couple of quarters.
- **Watch the risk of non-payment**, as the number of insolvencies is now rising, albeit at a moderate rate.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: December 2022 (DB2d → DB3a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- In Germany, political stability is normally high and insecurity risks are virtually non-existent.
- Business continuity risk increased at the outset of the Russia-Ukraine conflict, amid a high risk of supply disruption to critical energy and mineral inputs to manufacturers and utility firms.
- The mild winter in 2022 helped Germany and Europe ration energy; however, more savings will be needed as 2023-24 will be the first winter without any Russian pipeline gas at all.
- Two newly released reports – the National Security Strategy and the Strategy on China – identify Russia and China as growing threats, which may inadvertently raise retaliatory actions against Germany.
- A study by the Federation of German Industries (BDI) found that 30% of businesses are considering moving jobs and production abroad and that 16% had already initiated steps to relocate parts of their business; firms cited uncompetitive energy and resources prices.

Call to Action

- Assess supply security and plan accordingly.
- Take appropriate hedging measures against currency exposure, as these risks are elevated.
- Monitor supplier risk given the difficulties that some parts of the economy are experiencing.
- Expect only a partial recovery of the euro against the US dollar.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: April 2023 (DB3c → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

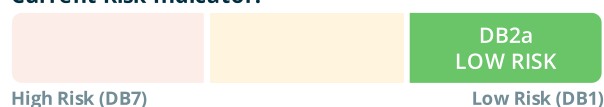
- The German cabinet has approved the first draft of the 2024 budget and fiscal plans through to 2027; the proposals put an end to expansive fiscal policy and a return to the debt brake that limits the budget deficit to 0.35% of economic output.
- GDP contracted 0.3% q/q in Q1 2023, following negative growth in Q4 2022, sending the economy into recession.
- The producer price index, a measure of the change in prices that domestic producers receive for their goods and services, fell to 1.0% in May, from 4.1% in April and 12.2% in Q1 2023.
- In June, unemployment rose to 5.7%, putting the Q2 unemployment rate at 5.6%, compared with 5.5% in Q1.
- Parliament has passed a new law making it easier for non-EU citizens to look for work while living in Germany; the system, which awards points based on age, connection to Germany, work experience and understanding of the German language, means jobseekers who can financially support themselves can live in Germany for up to a year while they find work.

Call to Action

- Expect pressure on prices to stay elevated but gradually ease.
- Factor in wage rises; the government has approved proposals to raise the minimum wage to EUR12.41 per hour from 2024 and to EUR12.82 per hour from 2025.
- Expect the government to become more interventionist in the energy sector; it raised its ownership stake in Uniper in 2022.
- Be prepared for the economy to contract in 2023, despite growth being more resilient than expected in 2022.
- Look for opportunities among the country's large pool of small and mid-sized enterprises.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: December 2022 (DB1d → DB2a)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

- Germany's political posture has changed as a consequence of the Russia-Ukraine crisis.
- Two newly released reports – the National Security Strategy and the Strategy on China – identify Russia and China as growing threats, which may inadvertently raise retaliatory actions against Germany.
- The three parties in the governing coalition can have contradicting views on key policy areas (such as the EU, taxation and green policies), which could trigger a premature collapse.
- The AfD, a right-wing party, continues to rise in popularity; in June, it won a district council election in Sonneberg, one of the smallest regions in Germany, with 52.8% of the vote; national polling puts the party at 20% of overall votes.
- According to UNCTAD's *World Investment Report 2023*, FDI flows into Germany in 2022 fell 76%, to USD11bn, due to a decline in equity investment caused by the acquisition of a Finnish-owned affiliate by the government, for USD20bn.
- The report also stated that Germany was the fourth most popular destination for international EV and battery R&D projects, behind China, the UK and the US.

Call to Action

- Expect the consensus-driven model to continue (although with a changed diplomatic attitude), as Chancellor Olaf Scholz is an experienced mainstream politician.
- Assess your exposure to environmentally harmful businesses closely, as taxes are likely to rise, given the inclusion of the Greens in the government.
- Monitor the government's agenda, as the Liberals support deregulation and more investment in ICT; however, expect limited progress in these fields.
- Assume that political risk insurance in Germany will remain unnecessary for the foreseeable future.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	1	1.1	-3.7	2.6	1.8	-0.3	1.5	1.7	1.8	1.9
Nominal GDP in USDbn	3,979	3,895	3,873	4,249	4,071	4,446	4,704	4,956	5,191	5,443
Nominal GDP in local currency	3.4tn	3.5tn	3.4tn	3.6tn	3.9tn	4.1tn	4.2tn	4.4tn	4.6tn	4.7tn
GDP per Capita in USD	47,997	46,845	46,484	50,947	48,829	53,375	56,508	59,564	62,443	65,526
Population (year-end, m)	82.9	83.1	83.3	83.4	83.4	83.3	83.3	83.2	83.1	83.1
Exchange rate (yr ave, USD- LCU)	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	320.4	326.2	270.6	333.7	174	148	165	257	330	337
Current Account (% of GDP)	8.1	8.4	7	7.9	4.3	3.3	3.5	5.2	6.4	6.2
FX reserves (year-end, USDbn)	378.4	386.6	422.9	568.7	591.8	622	673.2	743.1	836.4	978.5
Import Cover (months)	1.3	1.4	1.6	2	2.2	2.1	2.1	2.2	2.3	2.6
Inflation (annual ave, %)	2	1.4	0.4	3.2	8.7	6	2.2	2.1	2	2
Govt Balance (% GDP)	1.9	1.5	-4.3	-3.7	-3.1	-3	-2.2	-1.4	-1	-1.2

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Germany	Italy	US	France	UK
Income per Capita (USD)	53,375	31,747	78,925	46,221	48,371
Country Population (m)	83.3	60.1	340	64.8	67.7
Internet users (% of population)	89.8	70.5	90.9	84.8	94.8

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-1 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Germany	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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