

Country Insight Snapshot

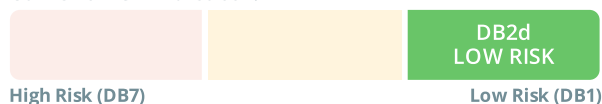
Germany

October 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

Prices remain high in Germany, contributing to deterioration in competitiveness and economic conditions; signs of recovery are not convincing.

Recent Changes

- The overall country risk rating remains at DB2d; despite Germany entering recession around the turn of the year and stagnating in Q2, we are unlikely to see a huge deterioration in the economy in the short term. Nonetheless, we have recently nudged down our GDP growth forecasts for 2023 (from -0.3% to -0.5%) and 2024 (from 1.4% to 1.1%).
- Headline prices are falling, sharply in the latest data, but the core measure, which more accurately reflects the shopping baskets of households, is continuing to rise into Q3.
- Germany is proposing to exempt thousands of small and medium-sized firms from complying with recently adopted EU sustainability rules, by raising the reporting threshold from 250 to 500 employees, thereby easing reporting costs.

Events to Watch

- The German government looks set to drop opposition to controversial sections of the EU deal on migration.
- The governing coalition is looking increasingly shaky at the same time as the right-wing Alternative for Germany (AfD) continues to rise in polls.
- In order to exempt thousands of SMEs from EU green reporting rules, Germany is proposing to raise the reporting threshold from 250 to 500 employees.

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

- Germany's period of economic weakness is continuing following stagnation in Q2 and a small contraction in Q1 – real wages have deteriorated and weighed on private consumption over the first half of the year, and soft external demand has held back the country's exporters.
- Those factors, alongside the lagged effects of tighter monetary policy, will continue to weigh on growth in H2; while the economy may again flirt with negative outturns before the end of 2023, a deep recession is not expected in our base case.
- The DAX, an index representing 30 leading German companies, has fallen from around 16,000 at the start of August to 15,250 in early October.

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
Eksport 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 increasingly high 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 that the ECB has finished raising interest rates and follow announcements by the central bank that may indicate when it would feel comfortable to begin easing policy.
- **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

- The government is set to drop opposition to controversial sections of the EU deal on migration, with Chancellor Olaf Scholz confirming that Germany will agree to key reforms of the EU's Common European Asylum System, although the disagreement between the Social Democratic Party (SPD) and Greens over this issue will likely further increase tension within the coalition.
- Germany has postponed delivery of Taurus long-range precision missiles to Ukraine over worries that German technicians would be required to remain in Ukraine to operate the weapons and would also further drag Germany into the conflict.
- The three coalition parties often have contradictory views on key policy areas, which may trigger a premature collapse.
- 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.
- A study by the BDI found that 30% of businesses in Germany are considering moving jobs and production abroad and that 16% had already initiated steps to relocate parts of their business; firms cited uncompetitive resources prices as a reason.
- Falling producer prices imply that input costs might begin exerting less pressure on supply chains and that supply and demand imbalances are becoming smaller.
- In the latest Dun & Bradstreet Global Business Optimism Insights, the difficulties of supply chain disruption in Germany are reflected in the Q4 2023 Supply Chain Continuity Index score of 48.9 (a score below 50 indicates a deterioration in sentiment).

Call to Action

- Expect bankruptcies to continue to climb in H2 2023 as firms struggle with soft demand and high borrowing costs.
- 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.

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

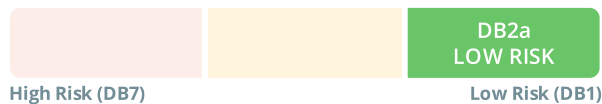
- Germany's period of economic weakness is continuing following stagnation in Q2 and a small contraction in Q1, with real wages having deteriorated and weighed on private consumption over the first half of the year, while soft external demand has held back the country's exporters.
- Most confidence indicators point to a downward trend in manufacturing, with the September manufacturing PMI rising to 39.6, from 39.1 in August, although it remains in contractionary territory. Energy-intensive industry continues to feel the effects of high energy prices eating into competitiveness.
- Weak industrial production points to soft GDP growth in Q3, with production between May and July 1.9% lower than in the previous three months and, as a sign of waning investment, the production of capital goods dropped 2.9% m/m in July.
- Producer prices fell at the fastest rate in August since data collection began almost 75 years ago, dropping 12.6% y/y; the fall supports our view that consumer inflation will slow in H2 2023 and into 2024.
- The government is set to drop opposition to controversial sections of the EU deal on migration, with Chancellor Scholz confirming that Germany will agree to key reforms of the EU's Common European Asylum System, although the disagreement between the SPD and Greens over this issue will likely further increase tension within the coalition.

Call to Action

- Expect CPI inflation to stay elevated this year but to continue to 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.
- 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

- Political insecurity risk and expropriation/nationalisation risk are generally low in Germany; we have scored them DB2c and DB1c respectively, and our outlooks for both are 'stable', meaning that we expect relative stability over the near term.
- Signs of discontent within the coalition are growing though, which may serve as an early warning that the political landscape is changing ahead of a general election expected in October 2025. The three parties in the governing alliance can have contradictory views on key policy areas (such as the EU, taxation and green policies).
- One of the most apparent features of the coalition fallouts has been growing dissatisfaction amongst voters; if an election were called today, the usually fringe party AfD would get 22% of the vote, second only to the centre-right bloc of the Christian Democratic Union (CDU) and the Christian Social Union (CSU) on 27%.
- Two newly released reports – the National Security Strategy and the Strategy on China – identify Russia and Mainland China as growing threats, which may inadvertently raise the risk of retaliatory actions against Germany.
- Germany appears to have become less attractive to outside investors: in H1 2023, FDI in Germany fell to EUR3.5bn, compared with EUR34bn in H1 2022.

Call to Action

- Expect the consensus-driven model to continue (although with a changed diplomatic attitude), as Chancellor 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	-3.8	3.2	1.8	-0.5	1.1	1.7	1.7	1.8
Nominal GDP in USDbn	3,979	3,896	3,872	4,269	3,950	4,425	4,687	4,937	5,166	5,410
Nominal GDP in local currency	3.4tn	3.5tn	3.4tn	3.6tn	3.9tn	4.1tn	4.2tn	4.4tn	4.5tn	4.7tn
GDP per Capita in USD	47,998	46,858	46,463	51,176	47,375	53,126	56,297	59,341	62,144	65,140
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	1	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	320.4	326.2	270.5	333.7	173.8	148	165	257	330	337
Current Account (% of GDP)	8.1	8.4	7	7.8	4.4	3.3	3.5	5.2	6.4	6.2
FX reserves (year-end, USDbn)	378.4	386.6	422.9	565.8	557.2	553.7	605.2	694.5	828.2	1,006.7
Import Cover (months)	1.3	1.4	1.6	1.8	1.6	1.5	1.5	1.6	1.8	2
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)	53,126	28,659	80,235	46,785	48,796
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
Potential FX/Bank Delays	0-1 week
Potential 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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