

# Country Insight Snapshot

## Germany

October 2017



Written 03 October 2017

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## OVERVIEW

**OVERALL COUNTRY RISK RATING:** DB1c

**Lowest risk** : Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.

G

**Rating Outlook:** Stable

## CORE OUTLOOK

- + Labour supply has increased due to immigration from the Middle East and North Africa combined with greater numbers of university graduates.
- + Local supplier quality is a strong point, increasing the attractiveness of local sourcing options for many firms.
- As a relatively open economy, Germany is overly reliant on the economic performance of its key export markets, most notably the euro zone, but also the US and emerging Asia.
- Childcare provision is insufficient, reducing women's labour market participation rates and undermining the country's growth potential.

## KEY DEVELOPMENT

Dun & Bradstreet downgrades its rating outlook for Germany with the election outcome increasing the political risk due to a weakening of Chancellor Angela Merkel's position.

### CREDIT ENVIRONMENT OUTLOOK

G

**Trend:** Improving

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

G

**Trend:** Improving

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

G

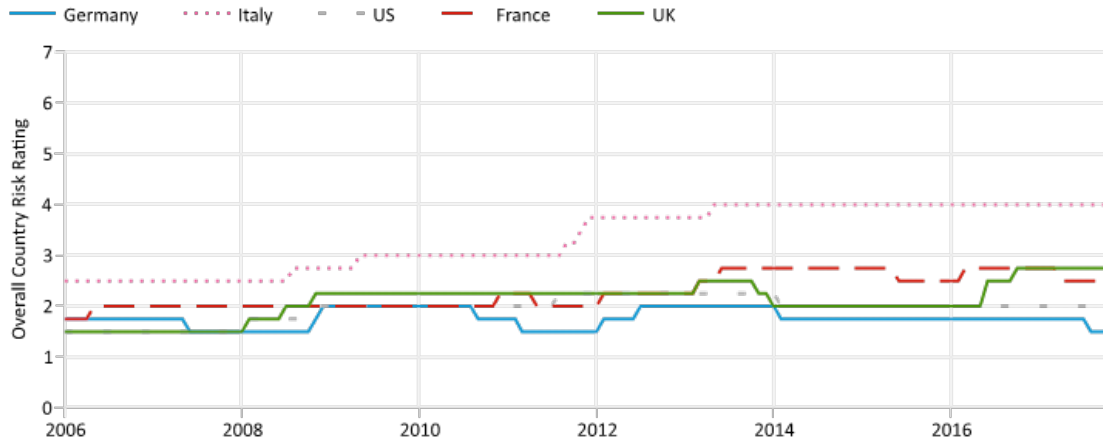
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

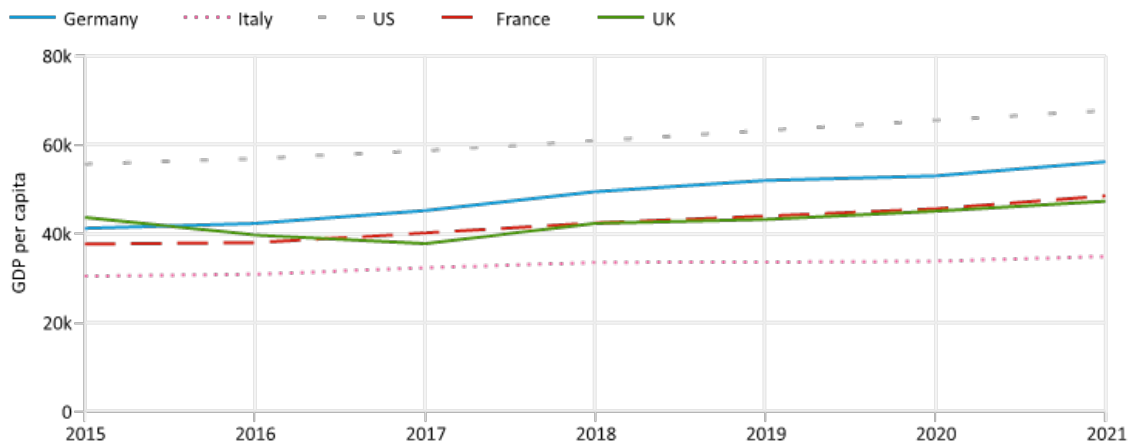
### Rating History and Comparison



Source : Dun & Bradstreet

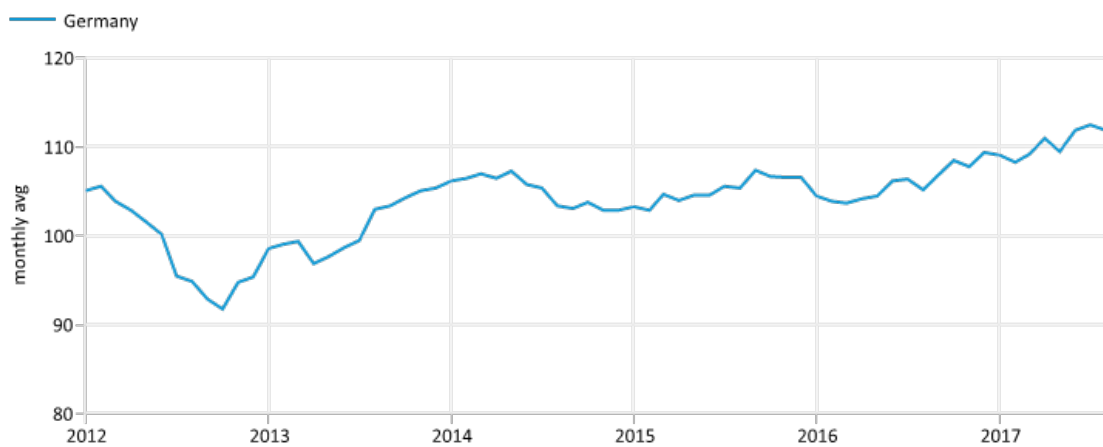
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Economic Sentiment Indicator



Source : National Statistical Offices / Haver Analytics



## Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	7.5	8.6	8.6	8.3	7.6	7.1	7.0	6.8
Govt balance, % GDP	0.3	0.7	0.8	0.5	0.5	0.5	0.5	0.5
Inflation, annual avge %	0.8	0.1	0.4	1.7	1.6	2.1	2.2	2.0
Real GDP Growth, %	1.9	1.7	1.9	1.9	2.0	2.3	2.5	2.3
Unemployment, %	5.0	4.6	4.2	3.8	4.0	4.2	4.5	4.3

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

In the World Economic Forum's *Global Competitiveness Report 2017-18*, Germany was ranked as the world's 5th most competitive country out of 137 states surveyed, underlining the excellent trade and commercial environment. Although this ranking is the same as for the previous year, Germany's score actually rose from 5.6 to 5.7 (on a 1 to 7 scale), showing that in absolute terms there has been an improvement in the country over the past 12 months. Germany scores particularly well in the business sophistication sub-index (3rd), as well as in innovation and market size (both 5th). The country's lowest scores were recorded in higher education (15th) and institutions (21st). According to the survey respondents, the biggest obstacles for doing business in Germany are (in order of importance): tax rates, tax regulations, restrictive labour market regulations and inefficient government bureaucracy.

## TRADE TERMS AND TRANSFER SITUATION

### **Minimum Terms: OA**

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### **Recommended Terms: OA**

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### **Usual Terms: 0-30 days**

*Normal period of credit associated with transactions with companies in the stated country.*

### **Local Delays: 0-1 month**

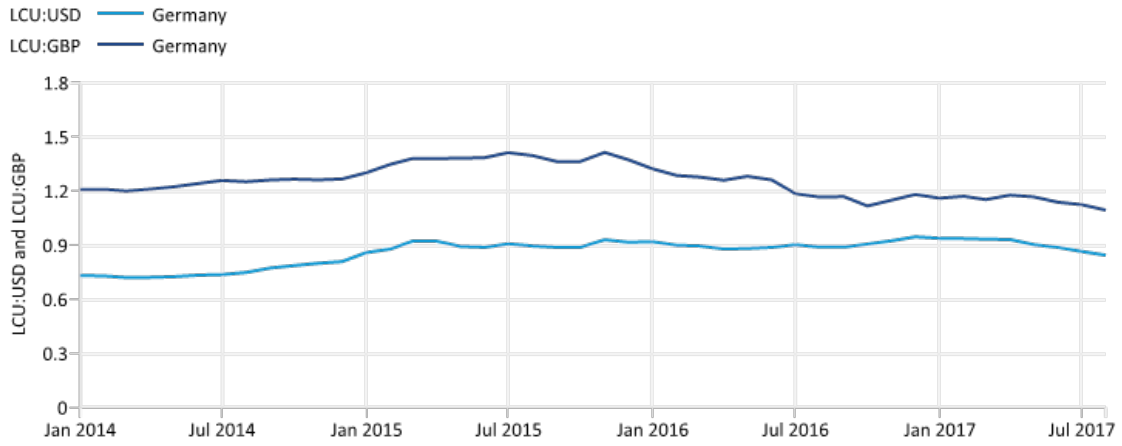
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### **FX/Bank Delays: 0-1 month**

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



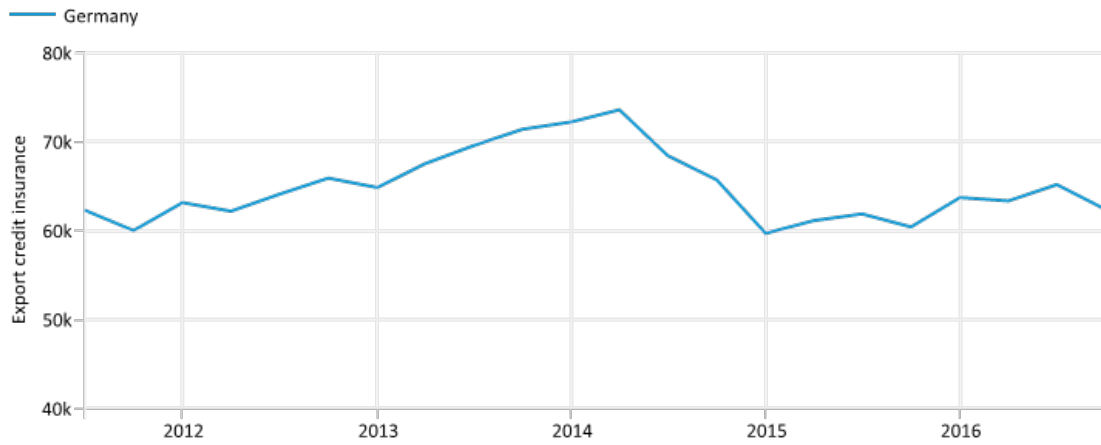
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = euro*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Political/Insecurity Risk

#### ***Rating outlook downgraded***

Dun & Bradstreet has downgraded Germany's rating outlook from 'improving' to 'stable' while simultaneously adjusting the political environment outlook. These downward revisions are in response to the outcome of the parliamentary elections on 24 September which has weakened Chancellor Angela Merkel's position. Although still the strongest party, her Christian Democratic Union (CDU) - together with the Christian Social Union (CSU), its Bavarian sister party - lost 55 MPs and now only holds 200 seats (out of 709). Merkel's junior coalition partner, the Social Democrats (SPD), also performed poorly (down from 193 seats to 153 seats), while four smaller parties performed well. Most notably, the far-right Alternative for Germany (AfD) won 12.6% of the votes (equivalent to 94 seats), meaning that for the first time since the Second World War, a far-right party has secured parliamentary representation at a federal level.

As the SPD has already ruled out a renewal of the current coalition with the CDU/CSU, the only realistic option for Merkel to cling onto power is a so-called Jamaica-coalition with the business-friendly (but moderately euro-sceptic) Liberals and the environmentalist (and left of centre) Greens. We do not expect coalition talks to start before 15 October (the election day for the state parliament in Lower Saxony) and, given the diverging opinions on key topics such as migration, the future of the euro zone and energy policy, the formation of a new government could take until the end of 2017. For the time being, Dun & Bradstreet recommends that customers should count on Merkel being re-elected for a fourth term in late 2017 - thereby providing stability in policy-making - but a re-run of the federal election cannot be completely ruled out as the four parties involved in the talks might not be able to find complicated compromises.

### Short-Term Economic Outlook

#### ***Growth outlook is still sound***

Despite the increased political risk, Germany's ultra-low DB1c rating is still supported by a robust economic outlook. In their annual Autumn Assessment, Germany's economic research institutes have increased their growth predictions to 1.9% (from 1.5%) this year, followed by 2.0% (up from 1.8%) in 2018, the same values Dun & Bradstreet have been predicting since July. The exceptionally low unemployment rate (3.7% in July) is supporting domestic demand, and real wage growth is still positive, but labour shortages in some sectors and areas are increasingly becoming a problem, especially in the construction sector.

### Business Continuity

#### ***Number of business failures is falling***

Meanwhile, data from the German Statistics Office shows that the risk of non-payment is falling, thereby supporting Germany's credit environment outlook. Overall, 10,246 companies went bankrupt in January-June, down 6.7% y/y. Sectors with the most insolvencies were trade (1,793 insolvencies), followed by construction (1,712) and scientific and technical services (1,144). Also positively, the economic damage caused by business failures fell from EUR16.0bn in H1 2016 to EUR9.4bn in H1 2017.



## COUNTRY PROFILE AND STATISTICS

### Overview

Germany lies at the centre of Europe, with access to the North Sea and the Baltic, and has land borders with nine other countries. As the most populous country - and largest economy - in Western Europe, Germany is a key member of the EU. Its democracy is characterised by a relatively high degree of ideological coherence, with coalition governments being the norm.

Germany has an advanced economy, and its elevated standard of living is underpinned by high levels of productivity and a world-class capital stock, including public infrastructure. Although services account for over two-thirds of output, the economy is driven by the export-oriented manufacturing sector. Germany's position as the world's second-largest merchandise exporter has made it vulnerable to fluctuations in global demand.

### Key Facts

Key Fact	Detail
Head of government	Chancellor Angela MERKEL
Capital	Berlin
Timezone	GMT +01-00
Official language	German
Population (millions)	81.9
GDP (USD billions)	3,472.4
GDP per capita (USD)	42,390
Life expectancy (years)	80.6
Literacy (% of adult pop.)	99.9
Surface area (sq km)	357,022

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	0.9	0.5	1.9	1.7	1.9
Nominal GDP in USDbn	3,547	3,759	3,897	3,374	3,472
Nominal GDP in local currency (bn)	2,760	2,831	2,937	3,041	3,139
GDP per Capita in USD	43,749	46,254	47,825	41,293	42,390
Population (year-end, m)	81.1	81.3	81.5	81.7	81.9
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.9	0.9
Current Account in USDbn	250.8	254.8	293.1	289.7	298.6
Current Account (% of GDP)	7.1	6.8	7.5	8.6	8.6
FX reserves (year-end, USDbn)	332.5	331.0	327.6	333.9	344.4
Import Cover (months)	1.3	1.3	1.3	1.5	1.5
Inflation (annual avge, %)	2.1	1.6	0.8	0.1	0.4
Govt Balance (% GDP)	0.0	-0.2	0.3	0.7	0.8

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.9	2.0	2.3	2.5	2.3
Nominal GDP in USDbn	3,718	4,076	4,291	4,382	4,647
Nominal GDP in local currency (bn)	3,252	3,369	3,517	3,682	3,841
GDP per Capita in USD	45,283	49,534	52,049	53,089	56,268
Population (year-end, m)	82.1	82.3	82.4	82.5	82.6
Exchange rate (yr avge, USD-LCU)	0.9	0.8	0.8	0.8	0.8
Current Account in USDbn	308.6	310.7	305.6	306.7	316.0
Current Account (% of GDP)	8.3	7.6	7.1	7.0	6.8
FX reserves (year-end, USDbn)	355.6	373.7	392.7	412.7	429.5
Import Cover (months)	1.4	1.3	1.3	1.3	1.3
Inflation (annual avge, %)	1.7	1.6	2.1	2.2	2.0
Govt Balance (% GDP)	0.5	0.5	0.5	0.5	0.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Germany	Italy	US	France	UK
Income per Capita (USD)	45,283	32,416	58,786	40,252	37,841
Country Population (m)	82.1	59.8	324.5	65.0	66.2
Internet users (% of population)	89.6	61.3	76.2	85.6	94.8
Real GDP Growth (% p.a., 2017 - 2026)	1.8 - 3.0	0.5 - 2.0	1.8 - 2.5	1.3 - 2.5	1.8 - 3.5

Source : Various sources/Dun & Bradstreet





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