

Country Insight Snapshot

Germany

April 2017



Written 31 March 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB1d

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

G

Rating Outlook: Improving

CORE OUTLOOK

+ Labour supply has increased due to immigration from the Middle East and Northern Africa and greater numbers of university graduates.

+ Local supplier quality is a strong point, and raises 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 upgrades its rating outlook for Germany as political and economic developments lead to growing optimism, with forward looking indicators continuing to impress.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Improving

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

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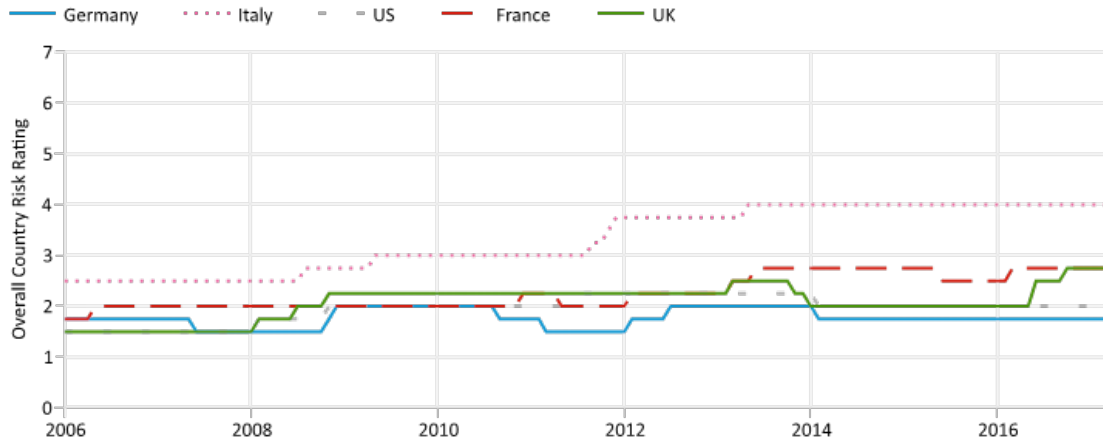
Trend: Improving

Key Development has had a positive impact on the outlook.



KEY INDICATORS

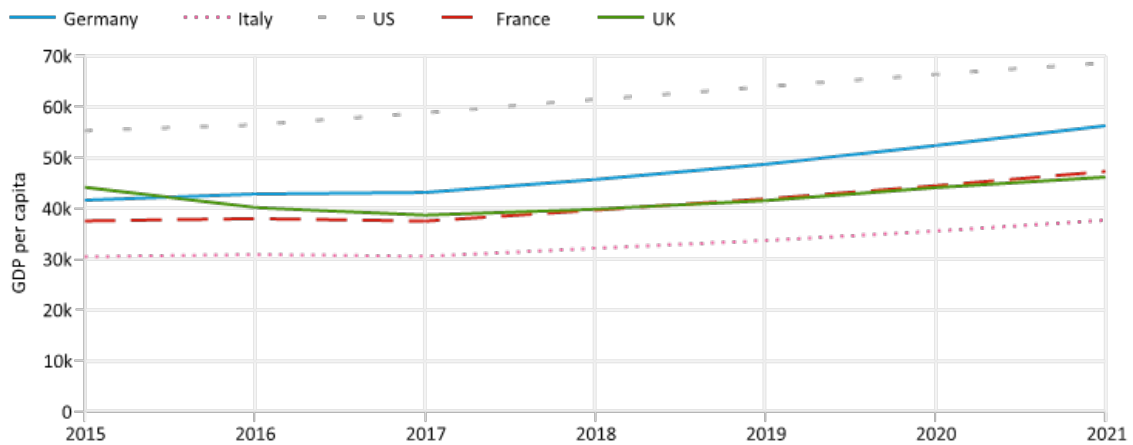
Rating History and Comparison



Source : Dun & Bradstreet

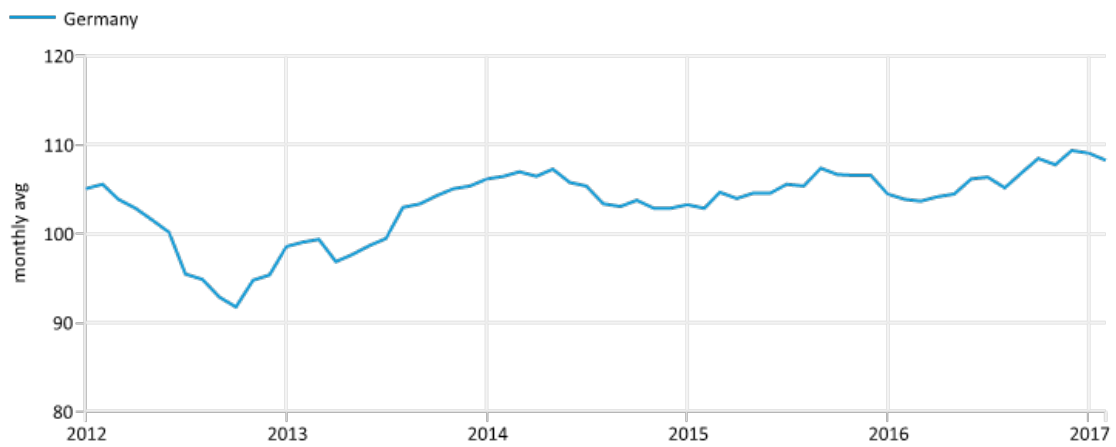
Note: 1 = Low Risk, 7 = High Risk

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	8.7	8.3	7.6	7.1	7.0	6.8
Govt balance, % GDP	0.3	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Inflation, annual avge %	0.8	0.1	0.4	1.8	1.9	2.1	2.2	2.2
Real GDP Growth, %	1.6	1.7	1.7	1.5	1.9	2.3	2.5	2.4
Unemployment, %	5.0	4.6	4.2	4.3	4.8	5.1	5.2	5.3

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In the World Economic Forum's *Global Competitiveness Report 2016-17*, Germany was ranked the world's 5th most competitive country out of 138 states surveyed, thereby confirming an excellent trade and commercial environment. Although this is down one position from the previous year, Germany's score actually rose from 5.5 to 5.6 (on a 1 to 7 range), 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 labour market efficiency and institutions (both 22nd), as well as goods market efficiency (23rd). According to the survey respondents, the biggest obstacles for doing business in Germany are (in order of importance): tax regulations, tax rates, inefficient government bureaucracy, and an inadequately educated workforce.

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

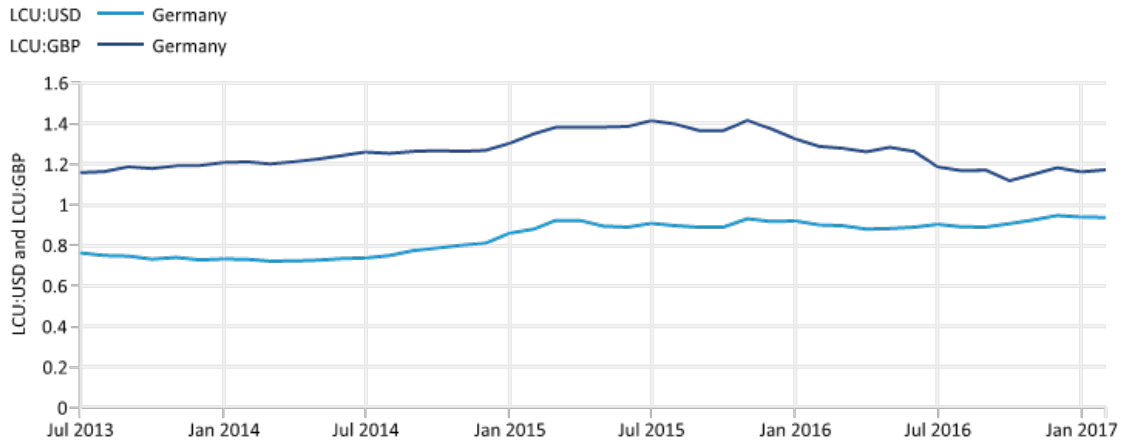
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



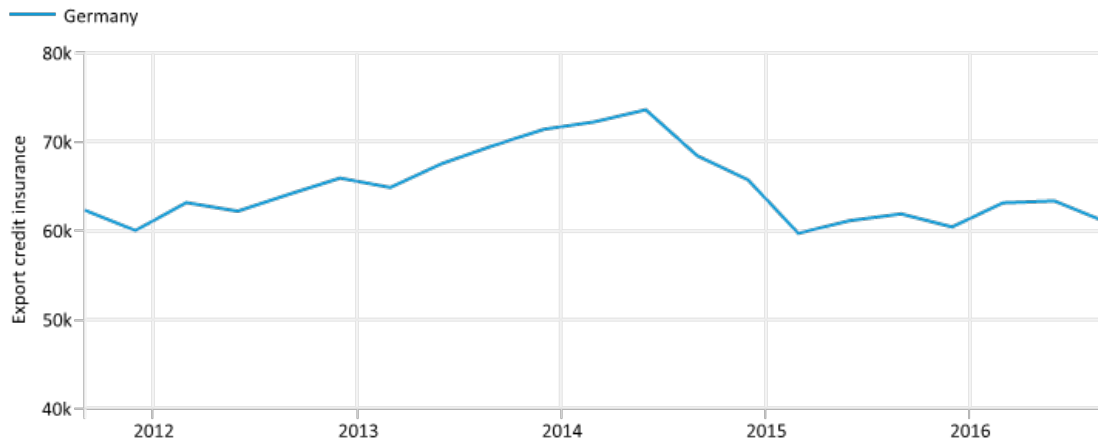
Exchange Rate



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

Short-Term Economic Outlook

Risk rating outlook upgraded again

For the second time this year, Dun & Bradstreet upgrades Germany's risk outlook. After having been lifted to 'stable' in January (from a previous 'deteriorating'), we have now assigned an 'improving' outlook as both economic and political events have caused increasing optimism. On the economic front, forward looking indicators continue to impress. The latest German Composite Purchasing Managers' Index (compiled by Markit) shows that in March, the Output Index (combining service and manufacturing sector outputs) stood at 57.0 points. This is the highest reading in 70 months and comfortably above the neutral 50-points line. Both manufacturing and service sectors are currently benefitting from robust new order inflow, pointing towards sound production levels in the months ahead. Meanwhile, the Business Climate Index of Munich-based Ifo, a leading economic think tank, rose to 112.3 points in March, the highest value since July 2011. A sectoral breakdown shows that manufacturers are the most optimistic about the outlook, followed by wholesalers. Taking all factors into account, Dun & Bradstreet predicts growth to come in at 1.5% this year, before accelerating to 1.9% in 2018.

Political/Insecurity Risk

Conservatives win state election

On 26 March, Chancellor Angela Merkel's Conservatives won the elections to the Saarland state parliament, one of Germany's 16 states. That bodes well for the run up to the national elections in September in which Merkel wants to secure a fourth term in office. Although Martin Schulz from the Social Democrats is trailing Merkel by only a few percentage points in polls, Dun & Bradstreet continues to expect another victory for the Conservatives in September. As the party will certainly need to find a junior partner (only in 1957-61 was the country governed with an absolute majority), the renewal of the current coalition agreement between the Conservatives and the Social Democrats seems likely. This would guarantee a high degree of continuity in policy making in the 2017-21 parliamentary term.

Business Continuity

Fall in the number of business failures

Positively for the country's credit risk assessment, data from the German statistics office shows that the number of business failures trended downwards in 2016. Overall, 21,518 companies had to file for insolvency last year, down by a sizable 6.9%. This is in line with a trend seen in Dun & Bradstreet's latest *Global Bankruptcy Report* which showed a drop in the number of bankruptcies in 27 out of 38 countries. Worryingly however, the economic damage caused by business failures developed unfavourably last year, with the amount of unsettled bills rising from EUR17.3bn in 2015 to now EUR27.4bn. Looking ahead, Dun & Bradstreet expects the risk of non or late payment in Germany to drop further, caused by ultra-low interest rates in the euro zone and robust economic performance. This will help to secure the country's ultra-safe DB1d country risk rating which makes Germany (together with Sweden and Norway) our best rated economy.



COUNTRY PROFILE AND STATISTICS

Overview

Germany lies at the centre of Europe, with access to the North Sea and the Baltic Sea, 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 - coalition governments are the norm.

Germany has an advanced economy; 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 the country 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)	80.7
GDP (USD billions)	3,459.6
GDP per capita (USD)	42,879
Life expectancy (years)	81
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	1.6	1.7	1.7
Nominal GDP in USDbn	3,547	3,759	3,886	3,362	3,460
Nominal GDP in local currency (bn)	2,759	2,831	2,928	3,030	3,127
GDP per Capita in USD	44,068	46,653	48,182	41,666	42,879
Population (year-end, m)	80.5	80.6	80.6	80.7	80.7
Exchange rate (yr avge, USD-LCU)	0.78	0.75	0.75	0.9	0.9
Current Account in USDbn	250.9	254.6	292.9	289.3	301.0
Current Account (% of GDP)	7.1	6.8	7.5	8.6	8.7
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	0.2

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.5	1.9	2.3	2.5	2.4
Nominal GDP in USDbn	3,483	3,685	3,922	4,213	4,524
Nominal GDP in local currency (bn)	3,230	3,353	3,501	3,665	3,834
GDP per Capita in USD	43,194	45,740	48,741	52,405	56,326
Population (year-end, m)	80.6	80.6	80.5	80.4	80.3
Exchange rate (yr avge, USD-LCU)	0.93	0.91	0.89	0.87	0.85
Current Account in USDbn	289.1	280.9	279.4	294.9	307.6
Current Account (% of GDP)	8.3	7.6	7.1	7.0	6.8
FX reserves (year-end, USDbn)	358.4	376.7	395.9	416.0	432.9
Import Cover (months)	1.6	1.5	1.5	1.4	1.4
Inflation (annual avge, %)	1.8	1.9	2.1	2.2	2.2
Govt Balance (% GDP)	0.0	0.0	0.0	0.0	0.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Germany	Italy	US	France	UK
Income per Capita (USD)	41,666	30,511	55,326	37,580	44,210
Country Population (m)	80.7	59.8	321.8	64.4	64.7
Internet users (% of population)	87.6	65.6	74.5	84.7	92
Real GDP Growth (% p.a., 2017 - 2026)	1.8 - 3	0.5 - 2	1.8 - 2.5	1.3 - 2.5	1.8 - 3.5

Source : Various sources/Dun & Bradstreet



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