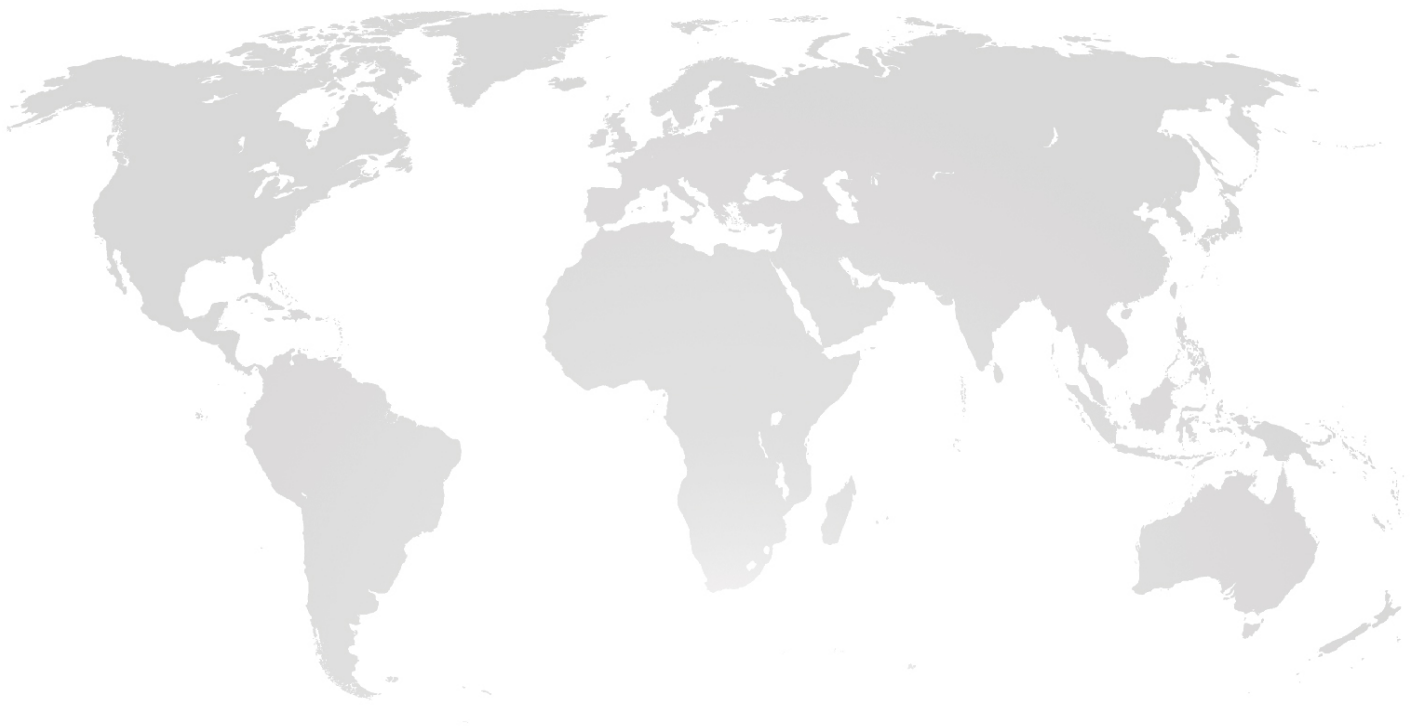


# Country Insight Snapshot

## Germany

July 2016






## 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.



**Rating Outlook:** Deteriorating 

## CORE OUTLOOK

- + Labour supply has increased due to immigration from ailing euro-zone economies and greater numbers of university graduates.
- + Local supplier quality is a strong point, and raises the attractiveness of local sourcing options for many firms.
- Germany's demographic structure is deteriorating, and attempts to boost birth rates in 2009-12 were unsuccessful.
- Childcare provision is insufficient, reducing women's labour market participation rates and undermining the country's growth potential.

## KEY DEVELOPMENT

While domestic consumer spending is still doing well, the fallout from the UK's Brexit referendum will weigh on economic activity in the coming quarters.

### CREDIT ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

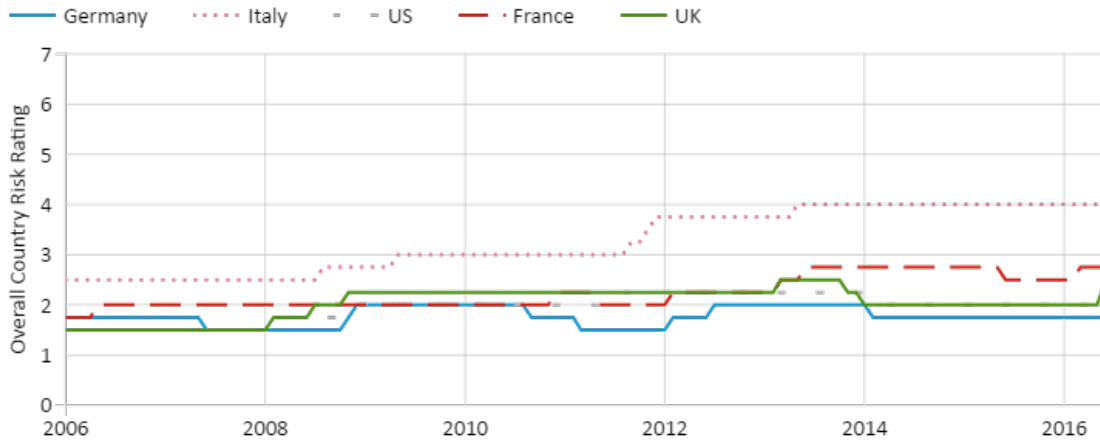


Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

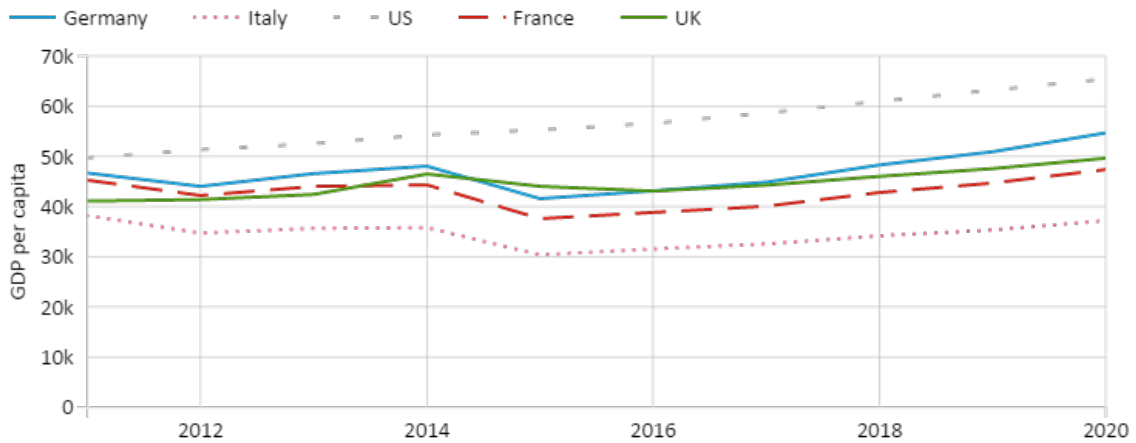
### Rating History and Comparison



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	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	6.8	7.4	8.6	8.5	8.0	7.6	7.1	7.0
Govt balance, % GDP	-0.1	0.3	0.7	0.2	0.0	0.0	0.0	0.0
Inflation, annual avge %	1.6	0.8	0.1	0.3	1.5	1.9	2.1	2.2
Real GDP Growth, %	0.3	1.6	1.7	1.5	1.6	2.0	2.3	2.5
Unemployment, %	5.2	5.0	4.6	4.5	4.8	5.0	5.4	5.5

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Germany's trade and commercial environment is largely sound. This can best be seen in the country's strong 4th position in the World Economic Forum's *Global Competitiveness 2015-2016 Report*. While the notoriously complex tax regulations, inefficient government bureaucracy, high tax rates and rigid labour market regulations remain the biggest obstacles for doing business in the country, Germany scores well in the fields of infrastructure (7th out of 140 countries surveyed), market size (5th) and business sophistication (3rd). Local supplier quantity (2nd) and quality (4th) are particular strengths in the 'business sophistication' sub-category. For the outlook period, we expect little change to the country's trade and commercial environment. In this light, and on the back of low insolvency risk and good payments performance, we continue to recommend using OA terms when doing business with Germany-based companies.

## 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

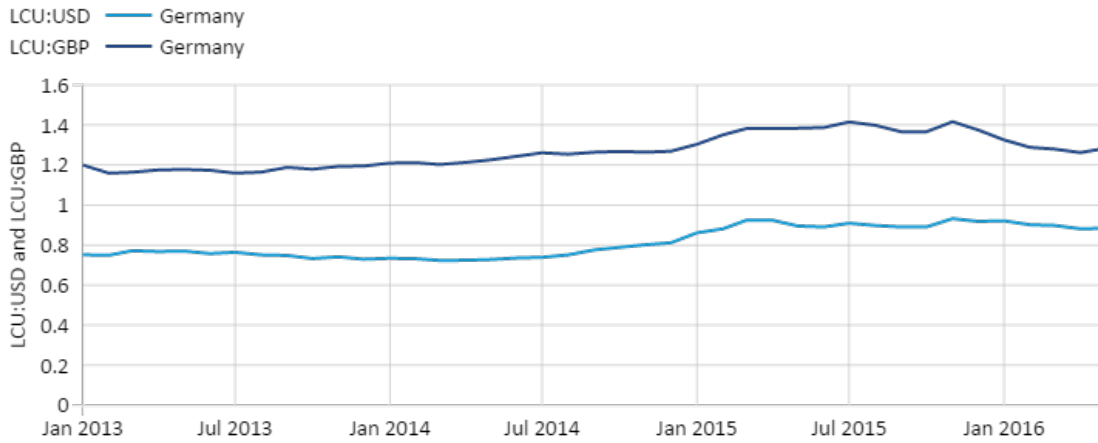
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



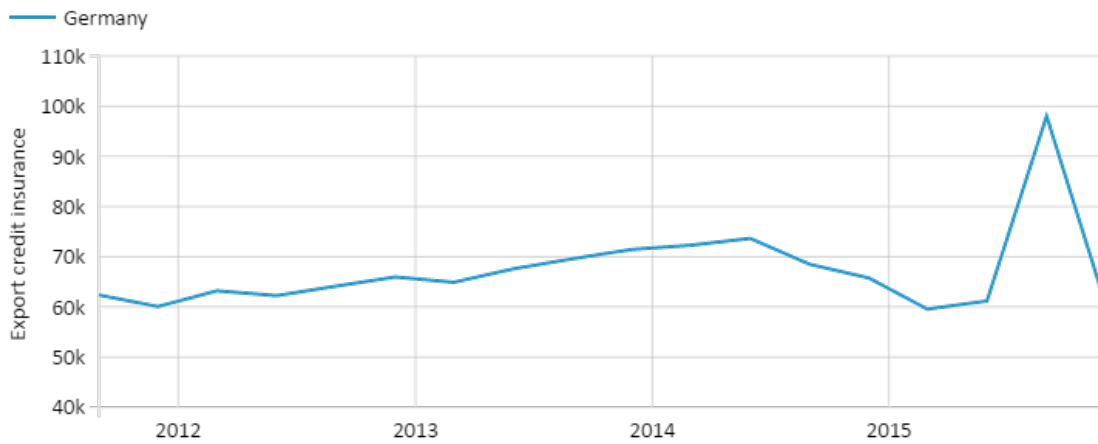
## Exchange Rate



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

#### ***Brexit vote will have an impact***

Although the current state of the German economy is sound, there are concerns over the fallout from the UK's EU membership referendum. With share prices around the globe plummeting after the 'Leave' camp unexpectedly won the referendum on 23 June, and the pound falling to a 31-year low against the dollar (and dropping significantly against the euro too), uncertainty will hold back economic activity in the wider region. As the UK is Germany's third-most important trading partner (after the US and France), Germany will be particularly affected, mainly by lower exports of goods and, to a smaller extent, lower demand for services. As a consequence, Dun & Bradstreet has lowered its real GDP growth forecasts for Germany: we now expect the German economy to expand by 1.3% in 2016 (formerly we expected 1.5%), followed by 1.5% in 2017 and 1.9% in 2018 (compared with 1.6% and 2.0%, respectively).

Despite the downgrade of our growth forecasts, companies targeting the large German middle class can still count on growing demand, as unemployment figures will remain low, inflation minimal and real wage growth sound. Data for Q1 from the German statistics office Destatis shows that the real wage index grew by a strong 2.6% y/y. This is the second highest value (behind Q2 2015) since the short-lived reunification boom in the early 1990s. Meanwhile, there are also calls raise the country's minimum wage (currently at EUR8.50 per hour) but Dun & Bradstreet expects the government to veto this plan. This should prevent a rise in costs for unskilled labour, thereby helping profit margins in sectors such as the low value-added end of the service sector.

### Business Continuity

#### ***Business failures fall further***

Positively for the credit risk assessment of Germany-based companies, figures from Destatis show a further drop in the number of business failures in Q1. In the January-March period, 5,436 companies had to file for insolvency, down by 4.9% y/y. The last quarter in which the number of corporate bankruptcies rose in y/y terms was Q1 2010. Worryingly, however - and despite the large drop - the economic damage from business failures rose in Q1, as the value of unsettled bills grew from a total EUR4.2bn in Q1 2015 to EUR4.9bn in Q1 2016. Unchanged from the previous quarters, trade (982 insolvencies), construction (928) and technical and scientific services (623) remain the sectors recording the most insolvencies. Looking ahead, Dun & Bradstreet expects the number of business failures to trend further downwards. Our optimism is based on Germany's sound macroeconomic performance as well as easier access to credit. Indeed, Eurostat data shows that credit to non-financial corporations grew by a strong 2.9% y/y in both April and May, the biggest rate of expansion since mid-2009. Positively in this context, payments performance in Germany will also reinforce the low level of risk, with our proprietary data showing that in 2015 Germany-based companies were the second-quickest payers in Europe, outperformed only by Danish companies.



## COUNTRY PROFILE AND STATISTICS

### Overview

Germany lies in the centre of Europe, with access to the North Sea and the Baltic Sea, and 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. Its 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)	3,354
GDP per capita (USD)	41,567
Life expectancy (years)	81
Literacy (% of adult pop.)	99.9
Surface area (sq km)	357,022

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	3.4	0.9	0.3	1.6	1.7
Nominal GDP in USDbn	3,754	3,542	3,751	3,874	3,354
Nominal GDP in local currency (bn)	2,699	2,756	2,825	2,920	3,023
GDP per Capita in USD	46,672	44,016	46,563	48,043	41,567
Population (year-end, m)	80.4	80.5	80.6	80.6	80.7
Exchange rate (yr avge, USD-LCU)	0.72	0.78	0.75	0.75	0.9
Current Account in USDbn	226.8	251.4	256.2	287.0	288.7
Current Account (% of GDP)	6.0	7.1	6.8	7.4	8.6
FX reserves (year-end, USDbn)	316.7	332.5	331.0	327.6	333.9
Import Cover (months)	1.2	1.3	1.3	1.3	1.5
Inflation (annual avge, %)	2.5	2.1	1.6	0.8	0.1
Govt Balance (% GDP)	-1.0	-0.1	-0.1	0.3	0.7

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.5	1.6	2.0	2.3	2.5
Nominal GDP in USDbn	3,480	3,616	3,890	4,097	4,394
Nominal GDP in local currency (bn)	3,077	3,173	3,297	3,442	3,603
GDP per Capita in USD	43,127	44,840	48,283	50,912	54,661
Population (year-end, m)	80.7	80.6	80.6	80.5	80.4
Exchange rate (yr avge, USD-LCU)	0.88	0.88	0.85	0.84	0.82
Current Account in USDbn	295.8	289.3	296.5	291.8	307.6
Current Account (% of GDP)	8.5	8.0	7.6	7.1	7.0
FX reserves (year-end, USDbn)	375.8	414.8	449.0	481.2	510.8
Import Cover (months)	1.6	1.6	1.6	1.6	1.6
Inflation (annual avge, %)	0.3	1.5	1.9	2.1	2.2
Govt Balance (% GDP)	0.2	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)	41,567	30,346	55,262	37,578	44,019
Country Population (m)	80.7	59.8	321.8	64.4	64.7
Internet users (% of population)	86.2	62	87.4	83.8	91.6
Real GDP Growth (% p.a., 2016 - 2025)	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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