D&B Country RiskLine Report

GERMANY

Region : Western Europe
Edition : January 2012

D&B Country Risk Indicator

DB1c	This "DB" Rating Indicates:	Trend
DB7 — DB1	**Lowest risk** Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.	**Deteriorating** The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

> *Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;
>
> *Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;
>
> *External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;
>
> *Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	82.3m
Surface area (sq km):	357,022
Capital:	Berlin
Timezone:	GMT +01:00
Official language:	German
Head of government:	Chancellor Angela MERKEL
GDP (USD):	3.3trn
GDP per capita (USD):	40,320
Life expectancy (years):	79
Literacy (% of adult pop.):	99.9

Country 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, which specialises in high-tech capital goods. The global financial crisis affected Germany deeply, although the economy has not been driven by debt or a housing boom. Its position as the world's second largest merchandise exporter has made the country vulnerable to fluctuations in global demand.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	OA

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

Recommended Terms:	OA

D&B'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.

Transfer Situation

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.

Trade & Commercial Environment

D&B's proprietary payments trends data show that German firms' payments performance remains favourable despite the global slowdown and uncertainty about the euro-zone debt crisis. According to Germany's *D&B Payment Index*, German firms' domestic payments performance improved in September: firms settled 87.6% of their bills promptly in September, up from 86.4% in August. Meanwhile, credit constraints for German industry and trade increased slightly in September but remained at a very low level, according to the *Ifo Credit Constraint Indicator*. Hence, despite uncertainty about financial stability in the wake of the euro-zone debt crisis, companies' payments performance is still supported by benign bank lending conditions.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

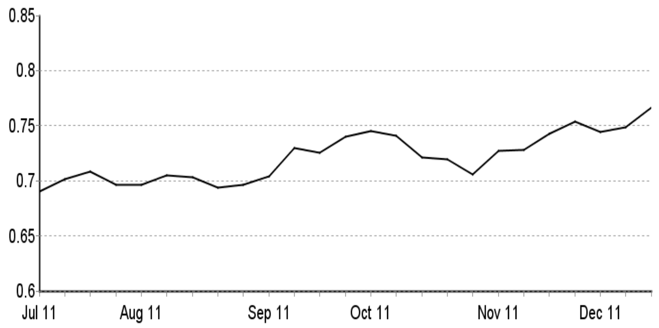
	2009	2010	2011	2012f	2013f
Real GDP growth, %	-5.1	3.7	2.9	0.8	1.5
Inflation, annual ave, %	0.2	1.2	2.4	1.7	1.9
Govt balance, % GDP	-3.2	-4.3	-2.2	-1.2	-0.7
Unemployment, %	7.8	7.0	6.1	5.9	5.8
C/A balance, % GDP	5.8	5.6	4.8	4.2	3.7

"Payments Performance" chart reflects experiences of EU rather than US companies. Inflation and unemployment are based on EU-harmonised data.

Currency Information

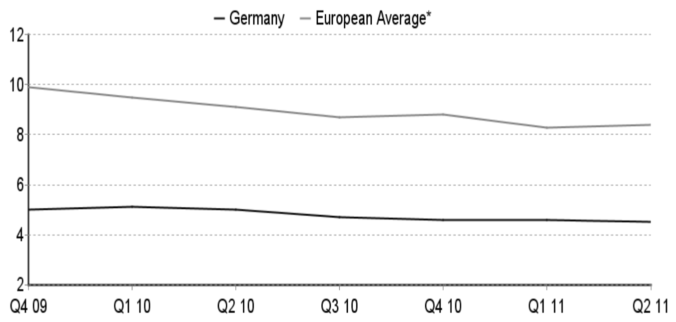
Exchange Rates (London, 19 Dec 11)	
GBP	1.1901
JPY*	0.9863
USD	0.7665

*(x 100)

Local Currency (Euro [EUR]: USD)


	Local Currency (Euro [EUR]: USD)					
	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11
Week 1	0.690	0.696	0.704	0.745	0.727	0.745
Week 2	0.701	0.705	0.729	0.741	0.728	0.748
Week 3	0.708	0.704	0.726	0.721	0.742	0.766
Week 4	0.696	0.694	0.740	0.720	0.754	
Week 5		0.696		0.705		

Payments Performance

Payments Performance (% of payments made 30 or more days over terms)


Data Table						
Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
5.0	5.1	5.0	4.7	4.6	4.6	4.5
9.9	9.5	9.1	8.7	8.8	8.3	8.4

Risk Factor

Germany's risk indicator remains on a 'deteriorating' ratings trend after the latest EU summit in Brussels on 9 December delivered disappointing results for the euro zone. At the meeting, European policy makers could not agree on a quick solution for the euro-zone debt crisis but could only agree on deeper fiscal co-operation and increased surveillance (but not on joint liability). According to plans articulated by the French President and the German Chancellor (and accepted by all European leaders except the British Prime Minister), debt brakes should be introduced in European treaties and national law by March 2012. D&B remains sceptical that these decisions will bring speedy relief to ailing euro-zone economies, as these measures will restore market confidence only in the long run. Furthermore, additional austerity measures in EU member states increase the likelihood of recession even further. Although a break-up of the euro zone still seems unlikely, it cannot be ruled out that the common currency area will disintegrate in the forecast period (with severe effects on Germany's export-led growth model).

On the macroeconomic front, Q3 data from Eurostat is broadly in line with our baseline scenario. As expected by D&B, real GDP growth slowed in July-September and came in at 2.6% year on year (y/y), compared with 4.6% in Q1 and 2.9% in Q2. More surprisingly, export growth remained robust and even accelerated slightly in Q3, reaching 8.1% y/y (up from 7.6% in Q2). However, the upturn in exports is solely due to higher exports of services: export growth in the manufacturing sector is already falling and is likely to remain on this downward trend in 2012-13. Forward-looking pointers such as the industrial, retail trade and consumer confidence indicators (all compiled by Eurostat) displayed a further deterioration in November and suggest low growth in the months to come. In this context, we are maintaining our meagre real GDP growth forecast of 0.8% in 2012, although we could revise it downwards significantly if the euro zone breaks up or domestic elements (e.g. potential tax increases or other austerity measures) come into play.

In the sphere of domestic politics, there is still a risk of early elections. Although the leadership of the junior coalition partner, the market-friendly Free Democratic Party (FDP) suppressed a revolt by backbenchers in December (over the party's official stance on the euro-rescue package), there is no guarantee that the coalition of the FDP with the conservatives will last until the next scheduled elections in 2013. Several senior FDP officials have resigned (or were forced to resign) in the past twelve months amid disastrous defeats in regional elections, while the new party chairman, Vice-Chancellor and Minister of Economics Philipp Roesler, is facing increasing opposition from backbenchers; the stability of the government is therefore at risk.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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

Recommended Terms:

D&B'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:

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

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

Rest of World
You can contact your local D&B Customer Services departments by clicking here.

Whilst D&B attempts to ensure that the information provided is accurate and complete, by reason of the immense quantity of