

# Country Insight Snapshot

## Germany

November 2018





## 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:** Deteriorating

## 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 still insufficient, reducing women's labour market participation rates and undermining the country's growth potential.

## KEY DEVELOPMENT

Dun & Bradstreet downgrades Germany's country risk rating amid rising political instability fuelled by divergent voting trends and Chancellor Merkel's announced departure.

### CREDIT ENVIRONMENT OUTLOOK

G

**Trend:** Stable

Key Development has had a negative 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:** Deteriorating

Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

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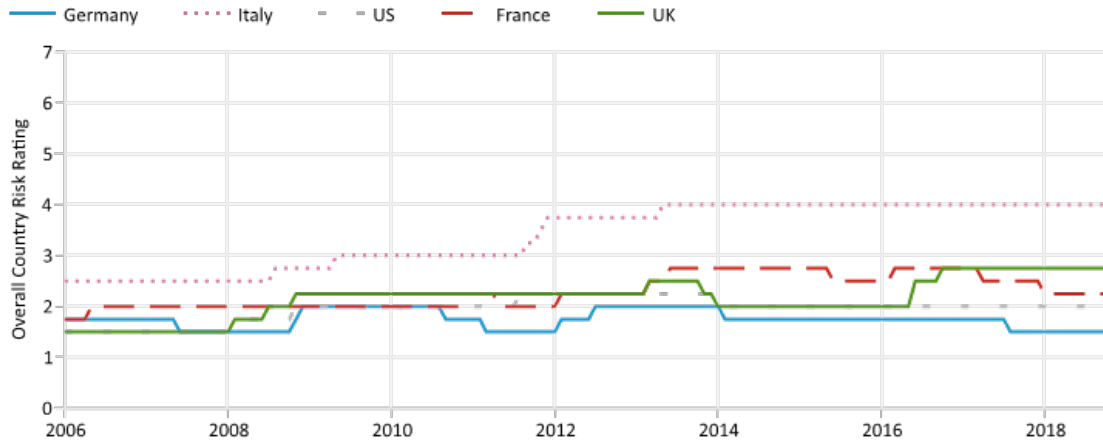
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

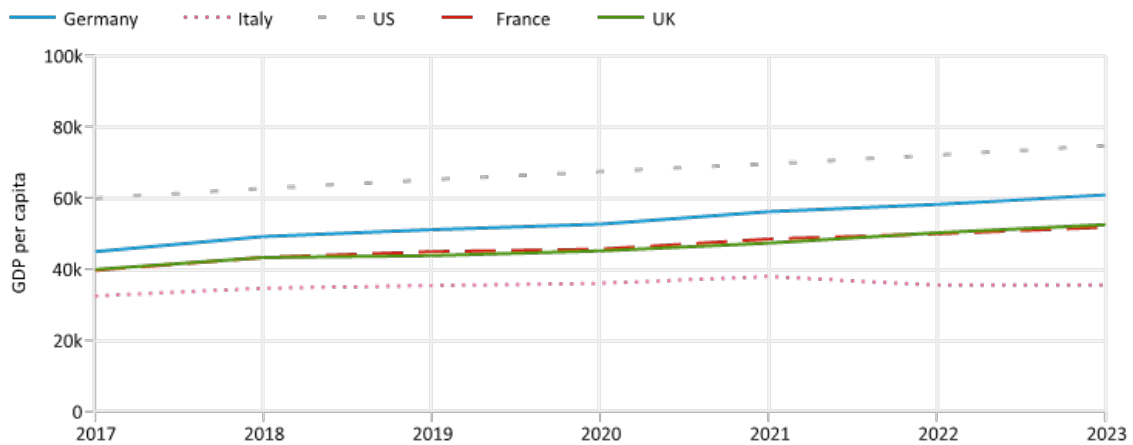
### Rating History and Comparison



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	2016	2017	2018f	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	8.5	7.9	7.7	7.4	7.0	6.8	6.5	6.5
Govt balance, % GDP	1.0	1.3	1.1	1.0	0.8	0.6	0.5	0.5
Inflation, annual avge %	0.4	1.7	1.8	1.8	2.0	2.0	2.1	2.1
Real GDP Growth, %	2.2	2.3	2.1	1.9	2.2	2.3	2.4	2.4
Unemployment, %	4.2	3.8	3.6	3.9	4.0	4.1	4.0	4.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The trade surplus for January-August 2018 fell to EUR155,9bn, from EUR160.1bn a year earlier, as imports grew by 5.8% y/y (to EUR723.1bn), while exports were up 4.2% (to EUR879.0bn). In August alone, imports were up 6.2% y/y, against a 2.2% rise in export, contributing to a provisional current account surplus of EUR15.3bn, down from a surplus of EUR17.8bn a year earlier. In August, 56.4% of German exports went to other EU countries, which in turn supplied 54.8% of imports. This trade profile offers some protection unless, as now, trade risks are rising both within the EU (due to slowing growth and uncertainties around Brexit) and outside (due to rising protectionism). These concerns are weighing on business confidence and business activity: Eurostat's Economic Sentiment Indicator for Germany stood at 112.5 in September, down from 116.0 in January; while the Purchasing Managers' Composite Output Index (compiled by IHS Markit) dropped to 52.7 in October: although this is above the 50-point line that divides expansion in sectoral activity from contraction, it marked a 41-month low.

## 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

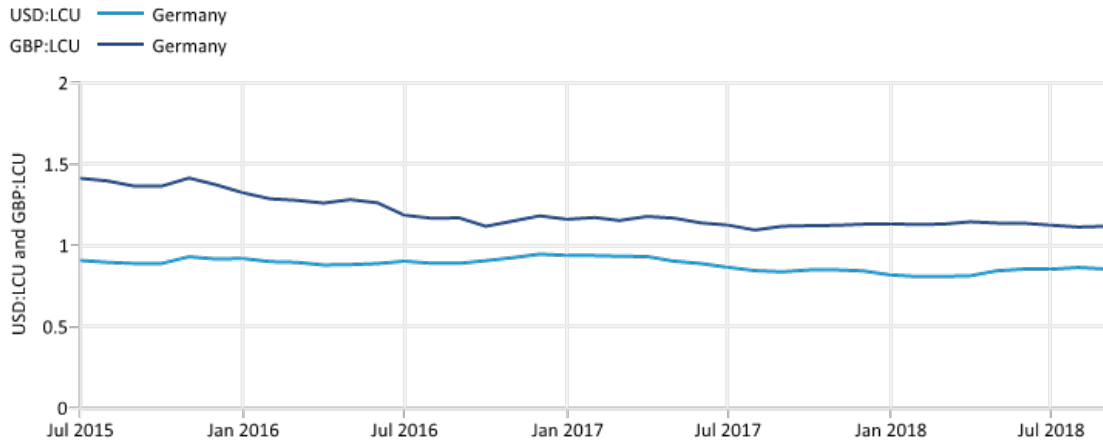
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



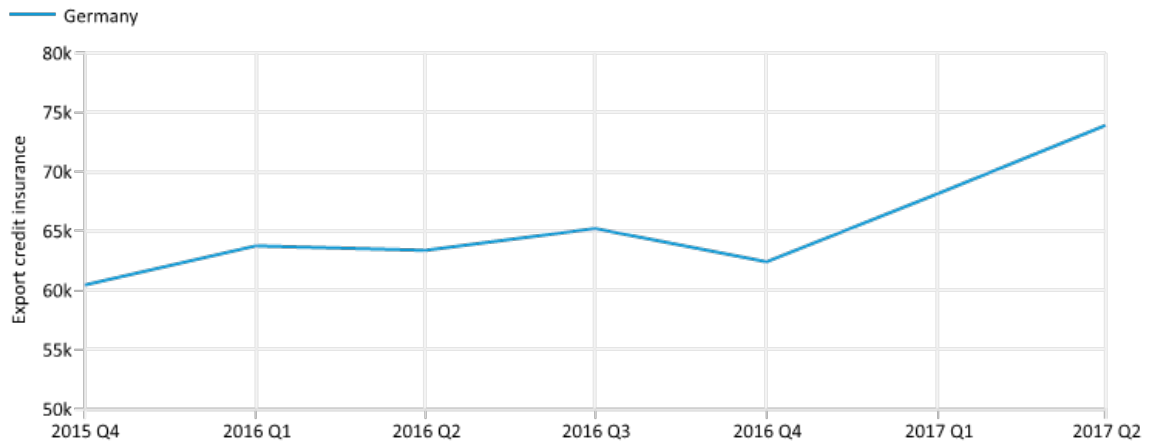
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = euro*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm; part of the increase going into 2017 is due to changes in methodology.*



## RISKS AND OPPORTUNITIES

### Political/Insecurity Risk

#### ***Risk rating downgraded***

With political blows coming thick and fast, Chancellor Angela Merkel announced on 29 October that she will not seek re-election as leader of the CDU at the party conference in December, and will not seek re-election as chancellor in the next election, scheduled for 2021. While her intention is to remain in office until then, pressure is likely to grow from within the CDU for her to relinquish office sooner rather than later as the party seeks to repair the damage suffered in the 2017 federal and 2018 regional elections. As a result of these events and the heightened level of political risk, Dun & Bradstreet has downgraded Germany's overall risk rating from DB1c to DB1d.

Leader of the CDU since 2000, and Germany's chancellor since 2005, Merkel's position has been eroding since the September 2017 election. It took six months of negotiation to form a government comprising the CDU, CSU (the Bavarian sister party of Merkel's CDU) and the centre-left Social Democrats (SPD), and tensions over the migration issue have periodically flared among the coalition parties. In September, Merkel lost a close ally, Volker Kauder, when he lost the election to be CDU parliamentary group leader, while in October the CDU/CSU and SPD fared badly in regional elections, losing ground as the left-of-centre Greens and far-right AfD parties made significant gains. While the ruling coalition parties are unlikely to trigger an early federal election given their loss of popularity, these events have weakened the coalition's mandate and are likely to be followed by a period of introspection (risking policy gridlock) and changes in the political line-up. Along with Merkel's likely early departure, such changes could involve negotiation of a new coalition line-up or the emergence of a CDU/CSU minority government. In any event, political stability is deteriorating.

### Business Regulatory Environment

#### ***Competitiveness ranking remains strong***

Germany ranks 3rd in the World Economic Forum's (WEF) *Global Competitiveness Report 2018*, out of 140 states, underlining the strength of both its overall and its relative competitiveness. Although behind the US (1st) and Singapore (2nd), Germany's ranking puts it ahead of all other EU countries.

In particular, Germany scores well in terms of its macroeconomic stability (like many other countries). It also ranks highly for its innovation capability and business sophistication (1st and 2nd respectively), and achieved top ten rankings for the connectedness of its infrastructure, human capital skills, market size and competitiveness of its product markets. However, while Germany's labour market ranks 12th, it continues to present some challenges, particularly around redundancy costs, inflexible wage determination and the labour tax rate: according to Eurostat, Germany's tax wedge on labour costs stood at 45.3% in 2017, the fifth highest in the EU. This is likely to remain a structural disadvantage for labour-intensive businesses over at least the short term. But given its overall strengths we expect Germany's commercial environment to remain competitive and structurally robust.



## 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)	82.1
GDP (USD billions)	3,698.7
GDP per capita (USD)	45,043
Life expectancy (years)	80.8
Literacy (% of adult pop.)	99.9
Surface area (sq km)	357,022

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2014	2015	2016	2017	2018f
Real GDP growth (%)	2.2	1.7	2.2	2.3	2.1
Nominal GDP in USDbn	3,905	3,380	3,489	3,699	4,056
Nominal GDP in local currency (bn)	2,943	3,046	3,154	3,281	3,409
GDP per Capita in USD	47,923	41,361	42,597	45,043	49,292
Population (year-end, m)	81.5	81.7	81.9	82.1	82.3
Exchange rate (yr avge, USD-LCU)	0.8	0.9	0.9	0.9	0.8
Current Account in USDbn	293.0	302.7	296.2	293.2	312.3
Current Account (% of GDP)	7.5	9.0	8.5	7.9	7.7
FX reserves (year-end, USDbn)	327.6	333.9	344.4	353.2	380.0
Import Cover (months)	1.3	1.4	1.5	1.4	1.4
Inflation (annual avge, %)	0.8	0.1	0.4	1.7	1.8
Govt Balance (% GDP)	0.5	0.8	1.0	1.3	1.1

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.9	2.2	2.3	2.4	2.4
Nominal GDP in USDbn	4,225	4,356	4,649	4,818	5,035
Nominal GDP in local currency (bn)	3,535	3,684	3,842	4,015	4,196
GDP per Capita in USD	51,246	52,777	56,293	58,339	60,990
Population (year-end, m)	82.4	82.5	82.6	82.6	82.6
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.8	0.8
Current Account in USDbn	312.6	304.9	316.1	313.2	327.3
Current Account (% of GDP)	7.4	7.0	6.8	6.5	6.5
FX reserves (year-end, USDbn)	399.4	419.7	436.7	454.5	477.6
Import Cover (months)	1.3	1.4	1.3	1.3	1.3
Inflation (annual avge, %)	1.8	2.0	2.0	2.1	2.1
Govt Balance (% GDP)	1.0	0.8	0.6	0.5	0.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Germany	Italy	US	France	UK
Income per Capita (USD)	49,292	34,771	62,824	43,409	43,430
Country Population (m)	82.3	59.3	326.8	65.2	66.6
Internet users (% of population)	89.6	61.3	76.2	85.6	94.8
Real GDP Growth (% p.a., 2019 - 2028)	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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Telephone

UK: +44 (0)1628 492700

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or call +44 1628 492700

#### Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: [countryinsight@dnb.com](mailto:countryinsight@dnb.com)

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