

# Country Insight Snapshot

## Germany

February 2019






## 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

Economic growth will remain slow over 2019-20, with strengthening external headwinds weakening export prospects, offsetting the effects of continuing domestic demand growth.

### 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 negative 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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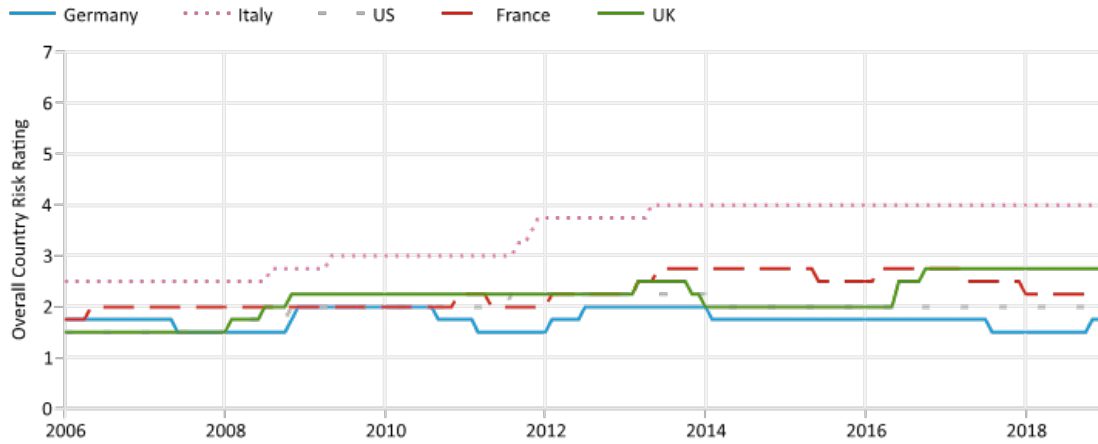
**Trend:** Deteriorating 

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

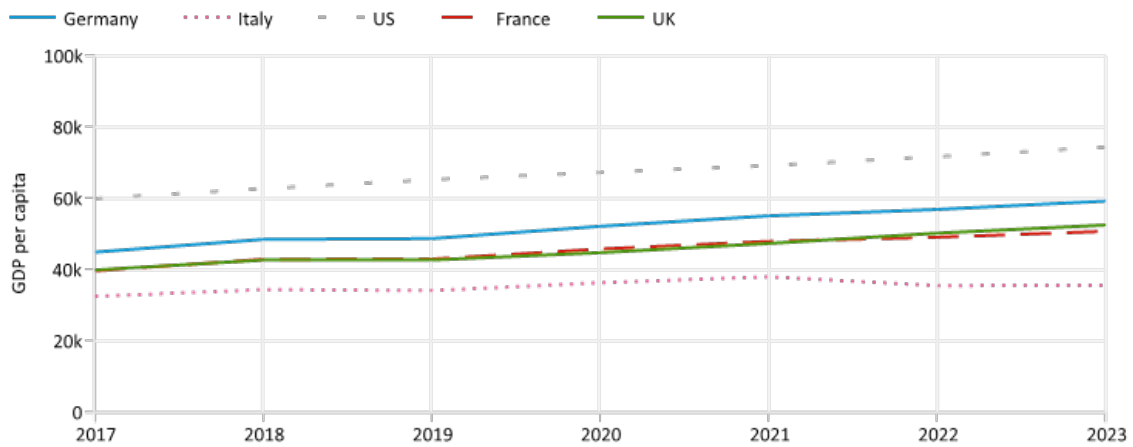
### Rating History and Comparison



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	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	8.5	8.0	7.6	6.4	6.5	6.8	6.6	6.6
Govt balance, % GDP	0.9	1.0	1.1	1.0	0.8	0.6	0.5	0.5
Inflation, annual avge %	0.4	1.7	1.9	1.8	2.0	2.0	2.1	2.1
Real GDP Growth, %	2.2	2.2	1.5	1.4	1.6	1.9	2.0	2.0
Unemployment, %	4.2	3.8	3.4	3.6	4.0	4.1	4.0	4.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Incidences of payment delays in Germany are shorter than in many peer economies. However, data from Dun & Bradstreet's World Wide Network partner, Informa, shows that payment delays are rising, averaging 6.74 days in Q3 2018, up from 6.58 days a year earlier, and 6.65 in Q2. This compares with average payment delays of 4.23 days in The Netherlands and, at the other end of the scale, 26.25 days in Portugal. Meanwhile, IHS Markit's latest PMI surveys of output and orders in Germany and the Eurozone suggest trading conditions will remain subdued in the months ahead. Weak demand for German exports could cause cash flow problems for some firms, potentially leading to longer payment delays and/or a rise in bankruptcy levels. According to Destatis (the Federal Statistical Office), business insolvencies fell 3.0% y/y in January-September 2018, but rose by 3.5% y/y in October. That said, the insolvency risk, as well as the risk of late payment in Germany, will remain lower than in most neighbouring economies.

## 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

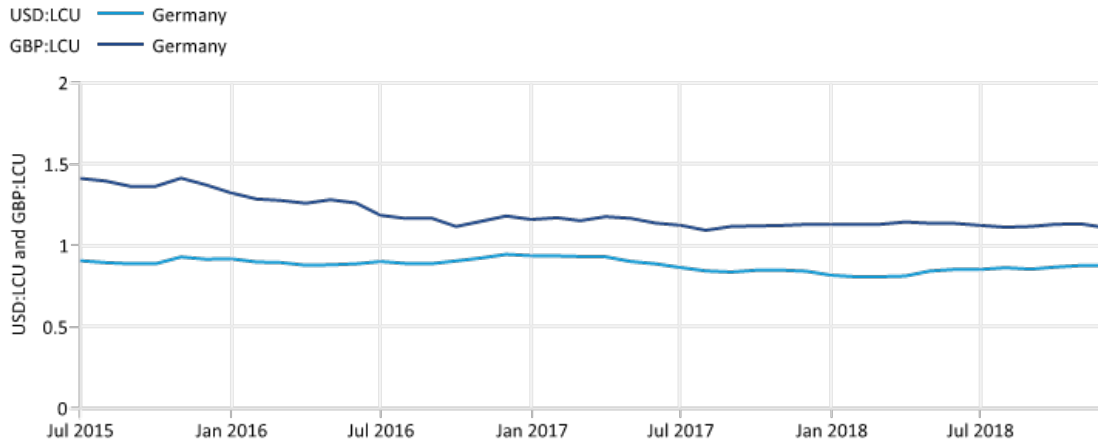
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



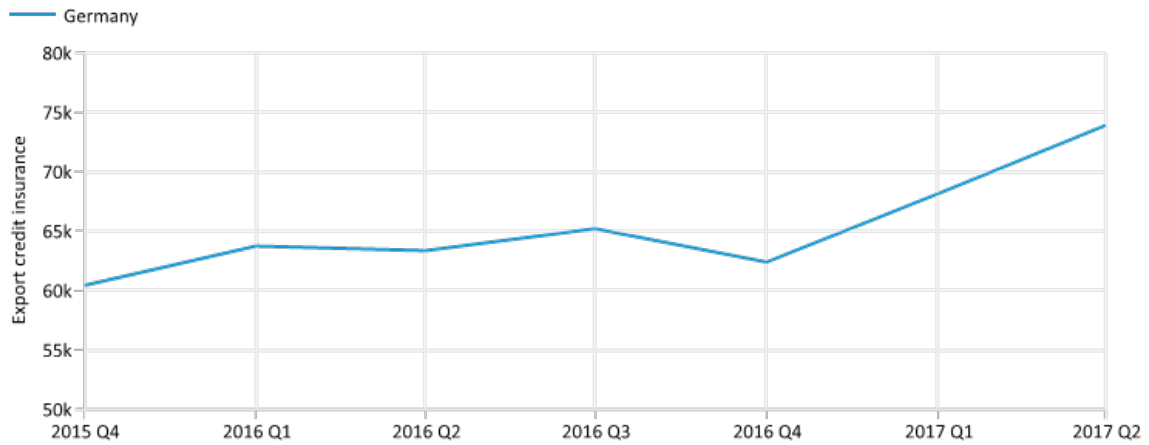
## Exchange Rate



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

### Short-Term Economic Outlook

#### ***Economy slows***

According to initial data from Destatis, Germany's economy grew by 1.5% in 2018, slowing from a 2.3% rate of expansion in 2017. However, the economy is thought to have avoided entering into recession, following a 0.2% quarterly contraction in Q3. With export growth slowing and net exports exerting a drag on overall growth, domestic demand proved crucial to the 2018 outcome. According to Destatis' first calculations, household consumption grew by 1.0% and made a 0.5 percentage point contribution to overall growth. Private consumption was supported during the year by high employment and above-inflation wage rises, which have boosted disposable income. According to Eurostat data, the harmonised unemployment rate averaged 3.4% in January-November, while HICP averaged 1.9% for 2018 as a whole. Government spending also rose during the year (up 1.1%). However, both government and household spending weakened from 2017, particularly in Q3, when household spending fell by 0.3% q/q.

Gross fixed capital formation bucked this trend, rising by 3.0% for the year as a whole (up from 2.9% in 2017), and strengthening in Q3 (up 0.8% q/q). Moreover, investment was robust in both construction and in machinery and equipment, indicating an expansion of capacity and/or improved facilities and production technologies, which bode well for future output. The investment figures were reflected in the sectoral output data, which showed strong growth in output in both the construction and ICT sectors in 2018. However, new emission standards temporarily delayed production in the strategically-important car industry, contributing to weaker exports and slowing growth in the trade and transport sector. The agricultural sector also experienced difficulties in 2018 (down an average of 1.4% y/y in Q1-Q3).

Going forward, gathering external headwinds and forward-looking indicators suggest exports will remain under pressure, although strong employment prospects and rising disposable incomes should help to support consumer spending. Overall, we expect weak GDP growth to persist in 2019, before picking up slightly in 2020, resulting in an average GDP growth of 1.5% over this period.

### Business Regulatory Environment

#### ***Commercial environment remains structurally robust***

Transparency International's *Corruption Perceptions Index 2018* ranked Germany 11th (out of 180 countries), alongside the UK, indicating a lower level of corruption than in various other countries of a similar size and economic structure (for example, Italy - ranked 53rd, and France - ranked 21st). We do not expect the country's corruption levels to change significantly over the forecast period, helping to ensure businesses can compete in a fair and transparent manner.

Meanwhile, the Heritage Foundation's 2019 *Index of Economic Freedom*, ranked Germany 24th out of 180 countries, grouping it in the 'mostly free' category with the US, UK and Nordic countries (among others). In particular, Germany scored well in terms of the openness of its markets, rule of law, degree of business freedom and fiscal health. However, Germany's scores were lower in terms of the overall tax burden, level of government spending and tightening regulations in the labour market: we do not expect this to change over the short-term forecast horizon.



## 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)	82.3
GDP (USD billions)	4,001.9
GDP per capita (USD)	48,630
Life expectancy (years)	80.9
Literacy (% of adult pop.)	99.9
Surface area (sq km)	357,022

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	2.2	1.7	2.2	2.2	1.5
Nominal GDP in USDbn	3,905	3,380	3,489	3,699	4,002
Nominal GDP in local currency (bn)	2,943	3,046	3,154	3,281	3,394
GDP per Capita in USD	47,922	41,361	42,597	45,043	48,630
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	292.7	302.5	295.9	297.0	302.4
Current Account (% of GDP)	7.5	9.0	8.5	8.0	7.6
FX reserves (year-end, USDbn)	327.6	333.9	344.4	353.2	374.6
Import Cover (months)	1.3	1.4	1.5	1.4	1.4
Inflation (annual avge, %)	0.8	0.1	0.4	1.7	1.9
Govt Balance (% GDP)	0.6	0.8	0.9	1.0	1.1

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.4	1.6	1.9	2.0	2.0
Nominal GDP in USDbn	4,027	4,316	4,561	4,709	4,902
Nominal GDP in local currency (bn)	3,502	3,627	3,770	3,924	4,085
GDP per Capita in USD	48,850	52,292	55,226	57,014	59,376
Population (year-end, m)	82.4	82.5	82.6	82.6	82.6
Exchange rate (yr avge, USD-LCU)	0.9	0.8	0.8	0.8	0.8
Current Account in USDbn	258.1	282.5	310.3	311.2	324.7
Current Account (% of GDP)	6.4	6.5	6.8	6.6	6.6
FX reserves (year-end, USDbn)	393.6	413.7	430.5	448.0	470.8
Import Cover (months)	1.4	1.3	1.3	1.3	1.2
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)	48,850	34,236	65,372	43,087	42,827
Country Population (m)	82.4	59.2	329.1	65.5	67.0
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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Email: [countryinsight@dnb.com](mailto:countryinsight@dnb.com)

Telephone

UK: +44 (0)1628 492700

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contact your local office  
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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