

EXPORT CREDIT GUARANTEES



INTERIM REPORT 2020

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

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Editorial deadline: 30 June 2020
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5-point package of measures to support the German exporters.

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7.0 billion

The German Federal Government issued export credit guarantees worth 7.0 billion euros in the first half of 2020.

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Shopping line cover

Easier access for German exporters to foreign buyers' procurement programmes.

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Financial result for the half-year

Export credit guarantees generated a positive result of 398 million euros.

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THE FIRST HALF OF THE YEAR AT A GLANCE

The coronavirus pandemic and its consequences have triggered a global slump in economic and trading activities. Production stops, disruptions along the supply chain and plant lockdowns: the economic impact around the globe is immense, with markets collapsing and new investments postponed. Even solvent companies with solid business models have come under pressure in the wake of the coronavirus pandemic. The International Monetary Fund (IMF) ex-

pects global economic output to shrink by around 5% this year.

The crisis has reached global proportions, affecting industrialised nations as well as emerging economies and developing countries. However, whereas the industrialised nations and their institutions have been able to alleviate the fallout from the crisis with massive support and stimulus programmes, the de-

veloping countries and emerging markets have far fewer means at their disposal. This means that the recession could last longer in these countries than in the industrialised nations.

The decline in these countries accompanying the recession is leaving direct traces on German foreign trade. The emerging markets and developing countries are important markets and targets for investment by the German export industry. This is reflected in the massive decline in exports over the past few months.

In order to provide the best possible support for the economy in this difficult phase and thus secure work and employment in Germany, the Federal Government introduced various forms of aid immediately after the outbreak of the coronavirus pandemic. These also include improvements to the export credit guarantees provided by the Federal Government, the availability of which has been widened substantially over the past few months.



DEVELOPMENT OF EXPORT CREDIT GUARANTEES

The Federal Government has increased the statutory cover limit for export credit guarantees from 148 billion euros to 160 billion euros. In addition, it has widened the cover provided on the basis of an

EU Commission’s decision to include so-called “marketable countries”. Since 30 March 2020, it has been possible to apply for export credit guarantees for

export transactions on short payment terms (up to 24 months) for the delivery of goods and services to all 27 EU nations plus Australia, Iceland, Japan, Canada, New Zealand, Norway, Switzerland, the United States and the United Kingdom. The extended scope for cover is initially available until 31 December 2020.

To support the German export sector and to make a crucial contribution to preserving the shipbuilding industry in Germany, the governments of Germany, France, Finland, Italy and Norway have additionally agreed to grant a [one-year holiday on loan repayments for ECA-financed cruise ships on application.](#)

Marketable risks

Coronavirus pandemic

At the beginning of July, the Federal Government adopted a corona-specific support programme for the German export industry. The [5-point package of measures](#) aims to improve the liquidity situation of exporters and importers, to facilitate finance for their business and to broaden the refinancing options for banks. The following measures were adopted:

1. Improved possibilities to finance new export business (until 30 June 2021)

These possibilities to raise finance include the introduction of a 720-day buyer credit on special terms as well as the subsequent provision of loan finance for transactions executed on supplier credit basis.

2. Introduction of shopping line cover

Shopping line cover is a special form of buyer credit cover that facilitates German exporters’ access to the procurement programmes of foreign buyers with a good credit standing.

Under this scheme, the Federal Government guarantees the credit limit granted to a foreign customer, enabling it to order goods and services from German exporters. The bank bundles these transactions into a single credit tranche with a uniform repayment profile. This tranche then counts towards the Hermes-covered credit facility.

The ability to bundle orders lowers the administrative resource requirements for all parties involved, making it more attractive for foreign buyers to place small-ticket orders with German exporters.

Shopping line cover

3. Premium adjustments for export credit guarantees (until 31 December 2020/30 June 2021)

To cushion the effects of a coronavirus-induced liquidity shortfall on the part of exporters, the Federal Government has introduced concessions in the payment of premiums. These concessions apply to extensions of the repayment period as well as the payment dates for premiums (until 30 June 2021) and the calculation of the risk surcharges on the premium for wholeturn-over policies (until 31 December 2020).

4. Improved options for refinancing for export-financing banks

The Federal Government has introduced an additional form of securitisation guarantee for Pfandbriefbanken (German covered bonds banks) to refinance Hermes-covered export credits. This allows banks that do not issue covered bonds (Nicht-Pfandbrief-

banken) to raise funding from banks that do issue them (Pfandbriefbanken) using cover provided by the Federal Government as long as certain conditions are satisfied. For their part, exporters benefit from a broader range of finance. In addition, the Federal Government is committed to extending the KfW Re-financing Programme, which is due to expire at the end of the year.

5. Technical improvements to export credit guarantees

The disbursement conditions for buyer credits, which have recently been eased for new business, now also apply to existing business. In addition, the Federal Government now allows banks to opt for once-only indemnification for non-performing loans. This is an important step towards improving the appeal of export finance.



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Federal Minister Altmaier:
 “We are using our 5-point package of measures, to provide support for German

exporters in this critical phase. We are assisting companies that have suddenly seen their survival under threat through no fault of their own. At the same time, we are creating new incentives abroad to encourage more orders of goods and services from Germany. After all, exports are an important pillar of our economy and create and secure high-quality jobs in Germany.”

(Source: [press release issued by the German Federal Ministry for Economic Affairs and Energy](#))

THREE QUESTIONS FOR...



... *Ulrich Schulte Lünzum,*
head of project finance at Euler Hermes

At the end of April, the Federal Government adopted the special renewable energies initiative for its export credit guarantees. What does this entail?

Renewable energies

The purpose of the special initiative is to boost the international competitiveness of the German export industry in this sector which is of such importance for the future. In terms of technology, Germany is already at the forefront. However, it is becoming increasingly apparent that technology and price no longer play the decisive role in a decision to place an order but that the ability to offer the customer attractive finance possibilities is also crucial. And this is precisely where the special initiative steps in.

Looking forward, it will be possible to include foreign-sourced goods and services of up to 70% in the cover provided by the Federal Government. To what extent does this strengthen German engineering companies' position in international competition?

To assert themselves in the market, it is crucial for German exporters to be able to include less-complex components in a project at lower cost. By including a greater proportion of foreign-sourced goods and services, these companies are able to offer more competitive prices and simultaneously provide competitive Hermes-backed finance covering the entire value of the order.

In addition, the Federal Government will be regularly waiving the upfront payment requirement for local costs in the future. What does that mean in practice?

It will now be possible to finance all local costs that can be covered in accordance with the OECD consensus, meaning that they no longer need to be

paid upfront by the customer. This is a very practical convenience for foreign buyers that improves German companies' competitive position. At the same time, it marks a key contribution towards ensuring a level playing field.

Special renewable energies initiative

Since mid-May, cover has been available under the Federal Government's export credit insurance scheme for transactions in the area of renewable energies that include up to 70% foreign-sourced goods or services. In addition, the Federal Government waives the requirement of an upfront payment covering local costs.

COUNTRY RISK CLASSIFICATIONS

At its meetings held in January and June, the OECD experts reviewed various country risks. The seven-step country risk classification system (1 = lowest risk, 7 = highest risk) was introduced at the OECD level in 1999 and is one of the parameters for calculating premiums. The following country classifications were changed:

OECD COUNTRY RISK CATEGORIES*

	prev.	new		prev.	new		prev.	new
Algeria	4	5	Iran	6	7	Oman	4	5
Botswana	2	3	Kosovo	7	6	Serbia	5	4
Costa Rica	3	4	Maldives	6	7	Tunisia	5	6
Ecuador	6	7	Mongolia	6	7	Turkmenistan	6	7
Hong Kong	2	3	Namibia	5	6	Ukraine	7	6

* Premium is calculated according to eight country risk categories, in seven of which (1 = lowest risk, 7 = highest risk) the calculation is based on a set formula. In countries assigned to country risk group 0 (OECD high-income countries and the countries of the Eurozone) a market-oriented premium is charged.

BUSINESS PERFORMANCE

The first six months of the current year were dominated by two seemingly conflicting trends: the decline in the volume of cover on the one hand and a disproportionately sharp increase in the number of applications for export credit guarantees on the other.

The lower number of big-ticket projects caused the volume of cover to drop from 8.7 billion euros in the previous year to 7.0 billion euros. One key reason for this is the current state of the transport sector.

7.0 billion

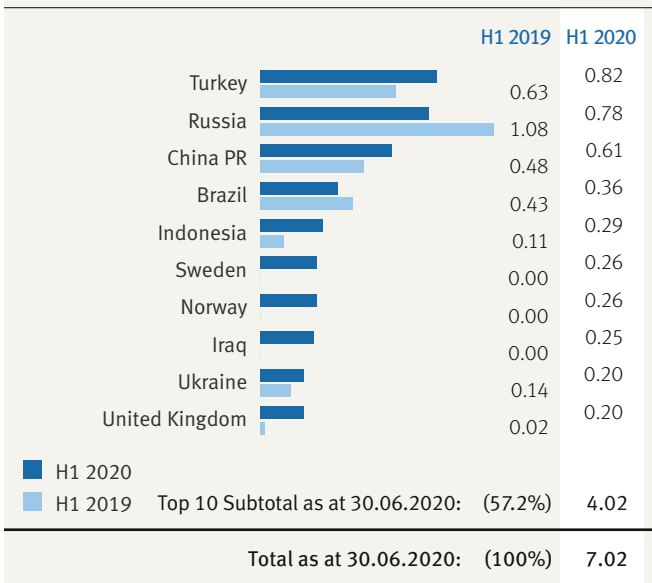
The outbreak of the coronavirus pandemic brought cruise ship business – a sector that is traditionally heavily dependent on finance backed by the Federal Government – to an abrupt standstill. Likewise, no material cover was provided in the aircraft sector, the other key transport sector, in the first six months of the year due to the massive slump in business in the wake of the coronavirus pandemic. Whereas demand for finance backed by guarantees issued by the Federal Republic is slowly recovering in the aircraft seg-

ment, it looks set to remain muted in the maritime sector for the foreseeable future.

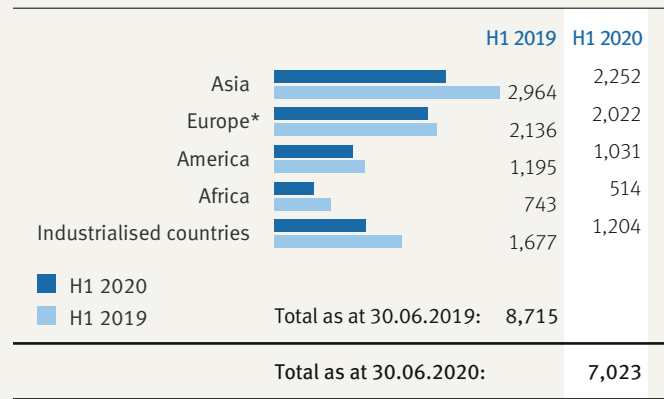
Even though volume of cover is an important parameter for accurately assessing demand for and acceptance of the export credit guarantees issued by the Federal Government, the number of applications for export credit guarantees is a more reliable guide than volume of cover, which fluctuates sharply and is dependent on big-ticket projects. The coronavirus pandemic has additionally spurred demand for the Federal Government’s export credit guarantees.

This is reflected in the number of applications, which rose by more than one third over the same period in the previous year. In particular, there was a significant increase in the number of applications for cover under wholeturnover policies (up 37.2%). Wholeturnover policies are a proven guarantee instrument particularly for small and mid-size companies (SMEs) that maintain business relations with multiple customers in different countries.

HIGHEST VOLUMES OF NEW GUARANTEES AS AT 30.06.2020 IN BILLION EUR



REGIONAL DISTRIBUTION OF NEWLY GRANTED COVER AS AT 30.06.2019 IN MILLION EUR



* European countries (excluding industrialised countries): Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Montenegro, North Macedonia, Republic of Moldova, Romania, Russia, Serbia, Turkey, Ukraine.

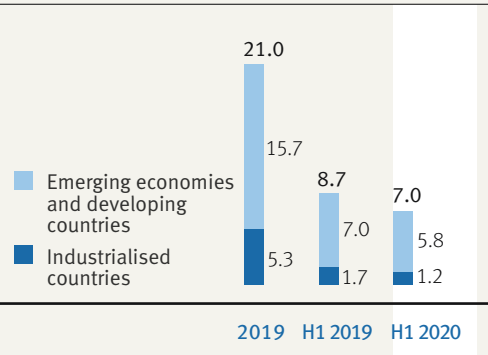
In addition to exporters' generally greater reluctance to accept risks, this increase was decisively due to the inclusion of marketable risks in the cover. The current crisis prompted numerous companies to submit applications for Hermes Cover for the first time.

As wholturnover policies are normally used to cover small-ticket transactions, the heightened demand for export credit guarantees in this area is not fully reflected in the volume of cover provided.

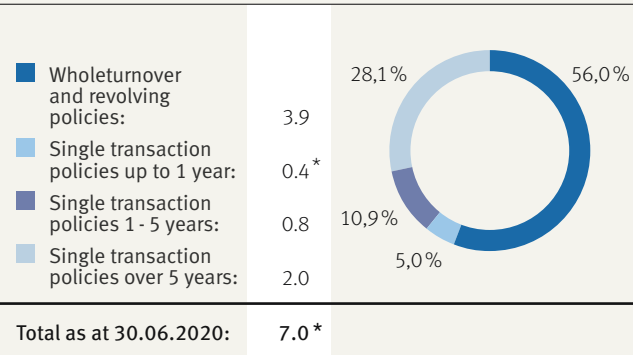
VOLUME OF COVER

Most of the deliveries and services covered were destined for the emerging economies and developing countries. They accounted for 82.9% of new cover (H1 2019: 80.7%).

VOLUME OF NEW COVER BY COUNTRY GROUPS IN BILLION EUR



NEW GUARANTEES BY HORIZON OF RISK AS AT 30.06.2020 IN BILLION EUR



* Differences are due to rounding

EXPORT CREDIT GUARANTEES FOR MILITARY GOODS IN BILLION EUR

	H1 2020	Type of goods
Algeria	0.004	Supply of 63 aircraft tugs
Indonesia	0.180	Supply of two mine hunter boats for combatting sea mines
Total H1 2020	0.184*	

* Total H1 2019: 0.094 billion Euro

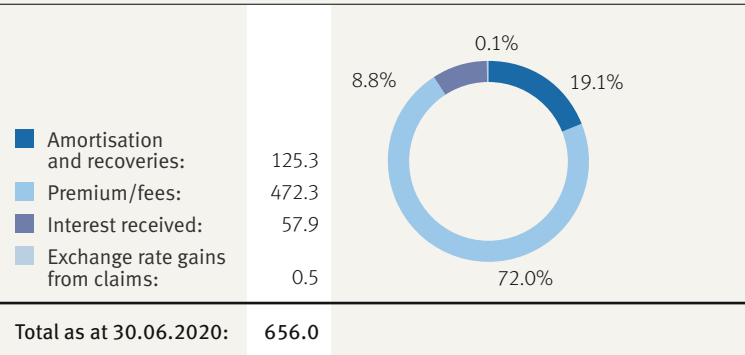
Broken down by individual countries, Turkey, Russia and China were the three most important markets for Hermes-covered exports. In addition to a number of smaller single transactions, cover under wholeturnover policies in particular played a decisive role here.

SINGLE-TRANSACTION AND WHOLETURNOVER COVER

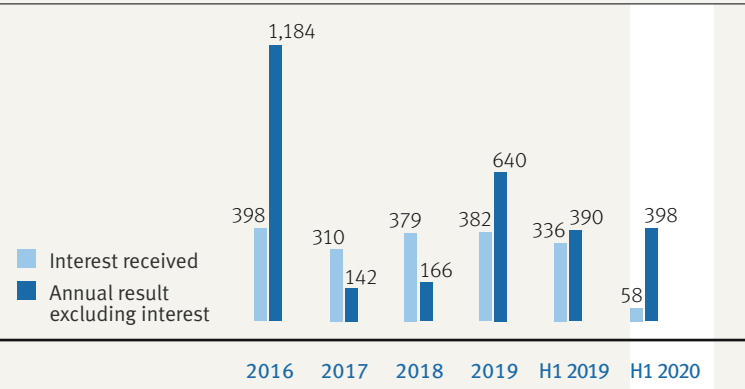
44% of the cover provided was for single-transaction policies (H1 2019: 51,3%). Demand was particularly strong for cover for transactions with credit periods of between one and five years (up 101%).

Wholeturnover policies accounted for 56% of the new cover provided in the first half of 2020. At 3.9 billion euros, the turnover covered was slightly down on the previous year (H1 2019: 4.2 billion euros).

REVENUES AS AT 30.06.2020 IN MILLION EUR



FINANCIAL RESULT IN MILLION EUR



REVENUES

Income from premiums and fees increased to 472.3 million euros (H1 2019: 253.7 million euros). Recoveries of indemnification paid in the past came to 125.3 million euros (H1 2019: 346.2 million euros). Interest income came to 57.9 million euros (H1 2019: 336.3 million euros).

EXPENSES

In the first six months of the year, the Federal Government paid indemnification of 159.4 million euros (H1 2019: 173.2 million euros). These payments were almost solely for commercial risks. At 35.4 million euros, Russia accounted for the highest indemnification payments, followed by Turkey (15.2 million euros) and Argentina (14.3 million euros). Looking ahead over the next few months, a significant increase in claims and indemnification payments is expected because of the coronavirus crisis.

FINANCIAL RESULT FOR THE HALF-YEAR

At 398.3 million euros in the first six months, the result for the Federal budget was higher than in the same period of the previous year (H1 2019: 390.1 million euros). Interest income is not included in this calculation.

10 **Financial result for the half-year**

OUTSTANDING RISK

The outstanding risk from current guarantees issued by the Federal Government stood at 85.5 billion euros as of 30 June 2020 (H1 2019: 85.1 billion euros). The United States (10.4 billion euros), the United Kingdom (10.0 billion euros) and Turkey (8.4 billion euros) account for the highest outstanding risk.



Federal Ministry
for Economic Affairs
and Energy

OUR PARTNER



EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government for decades. Export Credit Guarantees (“Hermes Cover”) protect German exporters and the banks financing them against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs.

They are managed on behalf of the Federal Republic of Germany by Euler Hermes Aktiengesellschaft as mandatary of the Federal Government.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the search term “Promotion of foreign trade and investment”.

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