

EXPORT CREDIT GUARANTEES



INTERIM REPORT 2021

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

► **Hermes Cover**

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Editorial deadline: 30 June 2021

Publication date: August 2021

Reform of the OECD Consensus

Up to 50% of local costs eligible for cover.

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Coronavirus pandemic

5-point package of measures to support the German export industry extended until 31 December 2021.

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More than 700 participants at the Expert Forum on Financing.

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Marketable risks

Extended cover options continue to apply until 31 December 2021.

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7.3 billion

The German Federal Government issued export credit guarantees worth 7.3 billion euros in the first half of 2021.

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Financial result for the half-year

Export credit guarantees generated a positive result of 173 million euros.

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THE FIRST HALF OF THE YEAR AT A GLANCE

Even though the economic situation has improved significantly in the first six months of the current year, the **COVID 19 pandemic** continues to pose major challenges for the German export industry. Only now are many companies feeling the delayed effects of the economic burdens caused by plant closures, production stoppages and lockdowns.

To provide the German export industry with appropriate support in this still difficult situation, the Federal Government has decided to extend a number of temporary support measures until 31 December 2021 or 31 March 2022.

These include cover for marketable risks arising from deliveries and services on short payment terms within the EU and in selected OECD countries,



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payment deferral agreements in the maritime sector and the



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[5-point package of measures to strengthen the German export industry.](#)

Over the last few months, all these measures have made a significant contribution to safeguarding the economic existence of small and medium-sized enterprises (SMEs) in particular.

The improvements to the OECD Consensus adopted in the first half of the year are also of great significance for the German export industry. The rules now stipulate that up to 50% of local costs can be covered.

DEVELOPMENT OF THE EXPORT CREDIT GUARANTEES

Reform of the OECD Consensus:
up to 50% of local costs eligible for cover

Reform of the OECD Consensus

On 20 April 2021, the participants of the OECD Consensus agreed that it will be possible in the future for a much larger proportion of local costs to be covered under officially supported export credit guarantees. Local costs include supplies and services provided in the buyer's country. In the past, it was possible to cover such local costs up to a maximum of 30% of the value of the export order (23% of the total order value). This has now been **raised to up to 50%**.

Specifically, the new OECD rules state that in Consensus Category I countries (OECD high-income

countries), local costs of up to 40% of the export contract value (28.6% of the total contract value) can be covered under state export credit guarantees. In Consensus Category II (all other countries), cover is available for a maximum of 50% of the export order value (33.3% of the total order value).

With these new rules, the OECD is responding to the sharp increase in the proportion of local costs in export transactions in recent years. Emerging, transfer and developing countries in particular are increasingly demanding the local provision of supplies and services, the employment of local staff or the use of regional resources. Exporters must meet these localisation requirements if they want to gain orders. The increased proportion of local costs eligible for cover is thus making an important contribution to **strengthening the German export economy in the international marketplace**.

However, the German **49-plus rule**, which stipulates the inclusion of foreign subcontracted supplies in export insurance, continues to apply under the new OECD Consensus rules. But local costs and third-country supplies can now be split more flexibly.

The Federal Government has strongly advocated the introduction of new rules for local costs in recent years and, in particular, continued to push for this reform during the German EU Council Presidency last year.



Federal Government extending 5-point package of measures

Coronavirus pandemic

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 Coronavirus



The coronavirus pandemic continues to exert considerable strain on the German export industry. Against this backdrop, the Federal Government has extended the [5-point package of measures](#) for strengthening the German export industry during the COVID-19 pandemic until 31 December 2021. Some of the measures adopted in July 2020 were originally due to expire at the end of June 2021.

The 5-point package of measures aims to improve the liquidity position of exporters and importers, to broaden the scope that banks have for refinancing loans granted for export business and to facilitate the availability of finance for export business.

Among other things, it enables transactions based on secured supplier credit to be financed ex post with buyer credits, provides a 720-day buyer credit on special terms and eases the premium burden.

Marketable risks: cover still available

Deliveries and services on short payment terms can still be covered under the Federal Government's export credit guarantees within the EU and certain OECD countries: With German support and in response to the current crisis, the EU Commission has extended until 31 December 2021 a corresponding exemption, according to which [normally marketable risks can be covered](#) under officially supported export credits.

This means that it is possible until the end of the year to apply for export credit guarantees for export transactions on short payment terms for the delivery of goods and services to all EU nations plus Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland, the United Kingdom and the United States.

The extended cover is important for the German export industry so that it can continue to engage in business despite the crisis.



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Maritime economy: deferral agreements extended

In 2020, the German Federal Government together with France, Italy, Finland and Norway suspended debt servicing for twelve months for cruise ships financed by means of officially supported export credits. This agreement has been extended by a further year until 31 March 2022.

As a result of the coronavirus crisis, numerous shipping companies' economic situation and liquidity position remain precarious. The deferral agreements will protect thousands of jobs in the European shipbuilding industry and on the part of numerous suppliers, thus strengthening the maritime sector in Germany. At the same time, it reduces the Federal Government's exposure to the risk of default on government-backed ship finance.

Hermes Cover click&cover EXPORT: still no application fee for supplier credit cover

The Federal Government has been offering exporters **digital supplier credit cover** known as Hermes Cover click&cover EXPORT since 2018. This provides cover for standardised small-ticket export transactions (orders worth up to 5 million euros) and is particularly popular with small and medium-sized enterprises: in the past three years, around 300 applications have been submitted, almost without exception by SMEs. A large part of the transactions for which cover was requested were valued between 250,000 and 2.5 million euros. Digital supplier credit cover has thus established itself as an easily manageable instrument for small-ticket transactions. In June, the Interministerial Committee for Export Credit Guarantees decided to continue waiving the application fee for Hermes Cover click&cover EXPORT. This waiver has been extended until the end of 2021.

BMW Foreign Trade Days: focus on the transformation of the economy

Digital Foreign Trade Days of the BMWi

The digital Foreign Trade Days conference organised by the Federal Ministry for Economic Affairs and Energy (BMWi) was held from 19 to 23 April 2021 under the motto “Germany works – act globally, think ahead”. In over 70 practice-oriented forums devoted to specific countries and subjects, exporters, financial institutions as well as association representatives talked with politicians about the challenges and opportunities of our times.

The Expert Forum on Financing focused on export credit and investment guarantees. More than 700 participants attended the forum, discussing the future development of foreign trade promotion instruments. The subjects touched upon included the expansion of the advisory services and a stronger presence in



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Dr. Ulrich Nußbaum,
State Secretary at the Federal Ministry
for Economic Affairs and Energy:

“The Covid-19 pandemic is a key challenge for international trade, but not the only one. The digital transformation and, above all, the decarbonisation of the economy are heralding a new era. With our foreign trade promotion instruments, we are supporting the German export industry to ensure the success of this transformation process.”

COUNTRY RISK CLASSIFICATIONS

important foreign markets. In addition, a “contemporary interpretation” of the concept of eligibility for cover was debated: Currently, one essential prerequisite for applying for cover for deliveries is that the exported goods must cross the German border. The extent to which this prerequisite is still appropriate in the digital age is currently the subject of intense debate. On the one hand, operator models that are based on the utilisation of a machine are increasingly being used. On the other, services and programming are increasingly coming to the fore at the expense of traditional physical exports of goods.

At its meetings in January and June 2021, the OECD experts reassessed various country risks. The seven-step country 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 |
|-----------|-------|-----|-----------|-------|-----|
| Bahrain | 5 | 6 | Oman | 5 | 6 |
| Hong Kong | 3 | 2 | Sri Lanka | 6 | 7 |
| Myanmar | 6 | 7 | | | |

* 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 euro area) a market-oriented premium is charged.

BUSINESS PERFORMANCE

Marketable risks

After an exceptional year in 2020, there are signs that the Federal Government's export credit guarantees are returning to normal this year. After surging to more than 6,300 in the first half of 2020 immediately after the scope for cover was broadened to include marketable risks, particularly for Wholeturnover Policies, the number of applications returned to a normal figure of 4,600 in the first half of 2021 (first half of 2019: roughly 4,700 applications).

In addition, the total value of applications rose sharply in the first half of 2021 by 116% to 25.8 billion euros. Cover is now being sought for transactions that were put on hold during the peak of the coronavirus crisis. Large infrastructure projects in the transport sector in particular contributed to this development.

The total value of cover increased from 7.0 billion euros in the same period in the previous year to **7.3 billion** euros. In addition to numerous small-ticket transactions, the Federal Government also provided cover for a number of big-ticket transactions in the triple-digit millions, including an expedition cruise ship, a rolling mill and wind turbines, in the first half 2021.

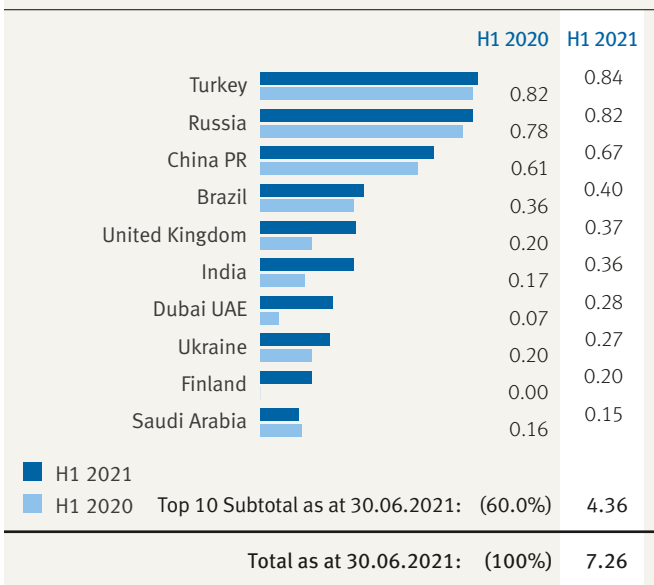
There are also signs of renewals and deferrals returning to normal: As of 30 June 2021, ten pandemic-related requests for renewals and deferrals had been received, compared with 156 in the course of the previous year.

It is encouraging to note that, at 165.2 million euros, indemnification payments as of 30 June 2021 were only slightly higher than in the same period of the previous year (first half of 2020: 159.4 million euros) despite the crisis.

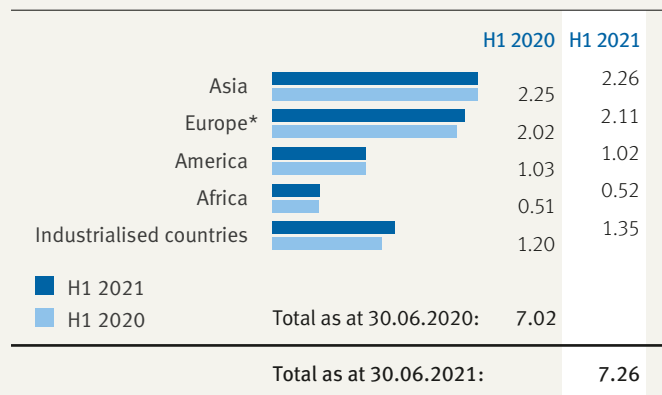
At 172.8 million euros, the result for the first half of 2021 was again positive for the Federal Government. However, it is significantly lower than in the previous year (first half of 2020: 398.3 million euros). This particularly reflects the decline in premiums and fees from 472.3 million euros to 290.6 million euros. Among other things, the exceptionally high figure is due to the inclusion of several big-ticket transactions from the end of 2019, which were not entered in the records until the first half of 2020. In the intervening period of time, fees and premiums have returned to their average level, coming to around 290 million euros.

Recoveries of indemnification paid in the past also have an impact on the overall result, declining to 84.9 million euros in the first half of 2021 (first half of 2020: 125.3 million euros).

HIGHEST VOLUME OF NEW GUARANTEES AS AT 30.06.2021 IN BILLION EUR



REGIONAL DISTRIBUTION OF NEWLY GRANTED COVER AS AT 30.06.2021 IN BILLION 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.

VOLUME OF COVER

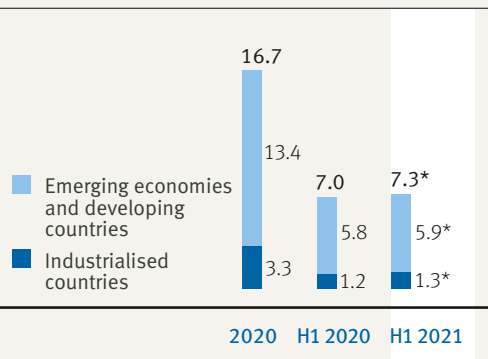
Most of the deliveries and services covered were destined for the emerging economies and developing countries. They accounted for 81.4% of new cover in the first half of 2021 (first half of 2020: 82.9%).

Broken down by individual countries, Turkey, Russia and China were the three most important markets for exports covered by the Federal Government.

SINGLE TRANSACTION AND WHOLETURNOVER COVER

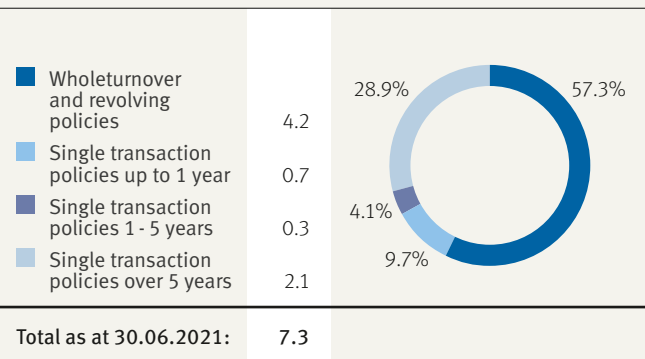
Single transaction policies accounted for 42.7% of total cover in the first half of 2021 (first half of 2020: 44%). There was particularly strong

VOLUME OF NEW COVER BY COUNTRY GROUPS IN BILLION EUR



* Differences are due to rounding

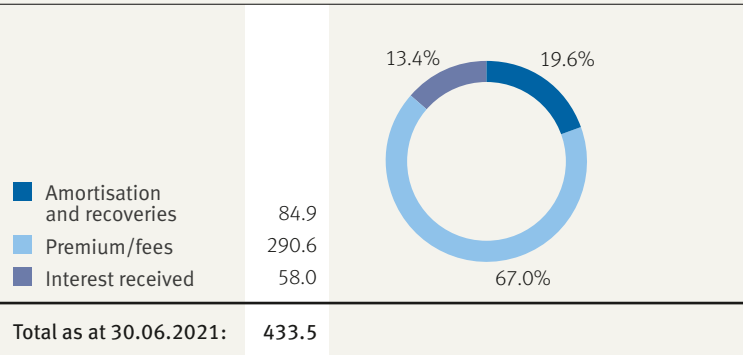
NEW GUARANTEES BY HORIZON OF RISK AS AT 30.06.2021 IN BILLION EUR



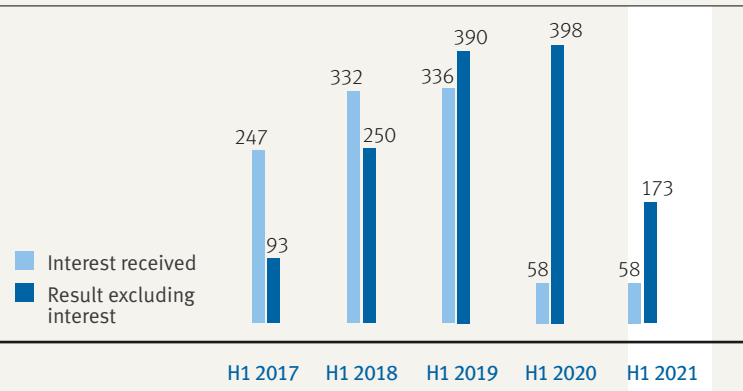
demand for cover for transactions with credit periods of over five years. At 2.1 billion euros, they constituted around two thirds of the total single transaction policies of 3.1 billion euros. There was a sharp increase in short-term single transaction policies (credit period of up to one year). Compared to the same period in the previous year, cover in this segment doubled to 706 million euros.

Wholeturnover Policies accounted for 57.3% of the new cover provided in the first half of 2021. At 4.2 billion euros, the turnover covered were up on the previous year (first half of 2020: 3.9 billion euros).

REVENUES AS AT 30.06.2021 IN MILLION EUR



FINANCIAL RESULT IN MILLION EUR



REVENUES

Revenues from premiums and fees came to 290.6 million euros in the first half of 2021 (first half of 2020: 472.3 million euros). Recoveries of indemnification paid in the past stood at 84.9 million euros (first half of 2020: 125.3 million euros). Interest income equalled 58 million euros (first half of 2020: 57.9 million euros).

EXPENSES

In the first six months of the current year, the Federal Government paid indemnification of 165.2 million euros (first half of 2020: 159.4 million euros). These payments were almost solely for commercial events of loss (157.9 million euros). At 31.6 million euros, payment defaults in connection with deliveries to Russia accounted for the greatest indemnification payments, followed by Chile (28.9 million euros) and Colombia (23.2 million euros) in second and third place.

FINANCIAL RESULT FOR THE HALF-YEAR

At 172.8 million euros in the first six months, the result for the federal budget was lower than in the same period of the previous year (first half of 2020: 398.3 million euros). Interest income is not included in this calculation.

Financial result for the half-year

Export Credit Guarantees and Untied Loan Guarantees:
instruments to promote foreign trade and investment
provided by the



Commissioned to implement the federal
funding instruments Export Credit Guarantees
and Untied Loan Guarantees:



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 (so-called Hermes Cover) protect German exporters and banks financing exports 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. Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwi.de under the heading Promotion of Foreign Trade and Investment.

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