

# Official Export Guarantee Scheme of the Federal Republic of Germany

## Report on the first half-year 2001



### HIGH DEMAND FOR EXPORT GUARANTEES

New cover was granted for export business with an order volume of DM 15.2bn during the first six months of 2001. While this is slightly down on the same period in 2000, with DM 17.0bn, the result still exceeds that of the preceding years by a considerable margin. Business is expected to develop positively in the second half of 2001.

The distribution of newly granted cover by country groups is shown in the adjacent chart.

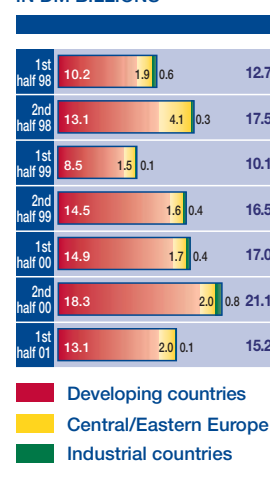
The **developing countries**, together with the threshold countries, once again account for the greatest amount, (DM 13.1bn). This represents a share of 86.1 % of new cover. The demand for cover for exports to the **Central and Eastern European countries** increased once again in the first half. At DM 2.0bn, they account for 13.2 % of newly assumed guarantees. Poland leads the field here, followed by Russia. The volume of cover for the **western industrial countries** remained at a low level, DM 101m, making up 0.7 % of new cover.

Since a ceiling of DM 1bn was opened for **Russia** in the previous year, demand has been at a high level, against the

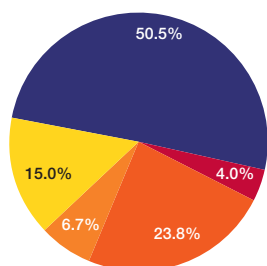
background of the economic upturn in the country. The Russian government has signaled its intention to continue its restrictive policy on granting state guarantees, so that other forms of security should become more important in the future. For this reason, a security model based on an assignment contract has been developed for covered finance credits to Russian banks, which provides for the Russian importers to fulfil their domestic payment obligations towards the Russian bank in the event of the Russian debtor bank becoming insolvent by paying directly to the German creditor bank. This gives back to German credit institutes an instrument which enables them to provide medium and long-term financing for plant and machinery destined for the important Russian market. Apart from this, the familiar cover facilities within a project financing or countertrade framework are still available, as well as cover on a case-by-case basis if the Russian buyer is sufficiently creditworthy (corporate risk).

Many transactions in the industrial plant and telecommunications sectors have been realized for export to **Iran** following the widening of cover facilities in the previous year, and further guarantees are

**GUARANTEES  
BY COUNTRY GROUP  
IN DM BILLIONS**

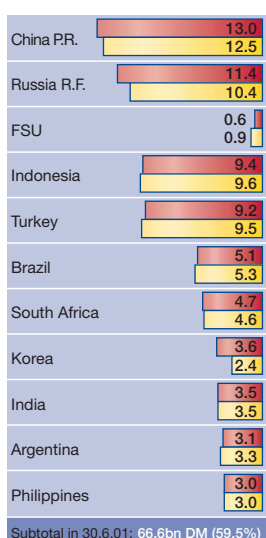


**GUARANTEES BY HORIZON OF RISK AT 30.06.2001**



- Wholeturnover policies: DM 7.7bn
- Revolving policies: DM 0.6bn
- Short-term specific policies: DM 3.6bn
- 1-5 years: DM 1.0bn
- Over 5 years: DM 2.3bn

**TOTAL OUTSTANDING RISK IN DM BILLIONS**



**Total Outstanding Risk at 30.06.2001: DM 111.9bn (100%)**

- 30.06.2001
- 31.12.2000

pending. In addition to this, Iran was upgraded to OECD country category 4.

In the case of **Turkey**, the country which accounted for the highest turnover in export guarantees in the last two years, demand declined due to economic and financial developments. As a result of this downturn, Turkey was downgraded to OECD premium category 6. The basis for

decisions has not changed however, and new cover can still be granted on the basis of very recent credit information and careful examination of the transaction in question.

The volume of cover for the Asian developing countries is significantly up on the same period one year earlier (+65 %), particularly due to a few major projects.

## BREAKDOWN OF NEWLY GRANTED COVER BY HORIZON OF RISK

A breakdown of newly granted cover reveals a shift towards **short-term guarantees**. A rise of almost 30 % to DM 11.9bn after DM 9.2bn in the preceding year resulted in these increasing their share of cover from 54.7 % to 78.3 % year-on-year. While wholeturnover policies remained at the previous year's level, short-term specific policies went up by DM 2.8bn, driven by a small number of major transactions involving foreign construction works and other capital goods business with progress payments falling within this period.

**Extended-term cover**, which had climbed to a very high level in the previous year due to several major transactions,

dropped back by 57.1 % to DM 3.3bn. Its share of new business is thus 21.7 %.

Cover under countertrade and other structured finance constructions was granted in the amount of DM 121m. Policies covering aircraft sales are down on the same period last year and stand at DM 645.3m (after DM 1.4bn).

The consistently high level of applications from **small and medium-sized companies** demonstrates that the benefits of export guarantee cover are especially felt by the small business sector. In addition to this, it is particularly in major export transactions that many companies from this sector are involved as subcontractors.

## TAKING ACCOUNT OF ENVIRONMENTAL IMPACT

The Interministerial Committee passed a resolution on 26th April 2001 confirming the guidelines for ecological, social and developmental aspects when granting export guarantee cover. With the sole exception of one member state, all the

countries involved in the negotiations of the Export Credits Group at the OECD have agreed to the current draft of a comparable procedure taking account of environmental aspects to be observed by the state export credit insurers.

## UTILIZATION OF THE STATUTORY COVER LIMIT, TOTAL COMMITMENT LEVEL AND TOTAL OUTSTANDING RISK

The **statutory cover limit** authorized by the Federal Budget Law at a level of DM 230bn had been utilized up to the middle of the year to an extent of DM 206.4bn, representing 89.7 %. All business covered under the statutory cover limit remains on the register until it is finally discharged. A net amount of DM 1.1bn expired during the first six months of 2001.

The actual maximum **outstanding risk of the Federal Government** from all policies underwritten rose by 1.3 % and reached DM 111.9bn as per 30.06.2001.

The top eleven countries in the order of their real outstanding risk to the Federal Government (including interest) can be seen from the chart on Page 2.

## REVENUES

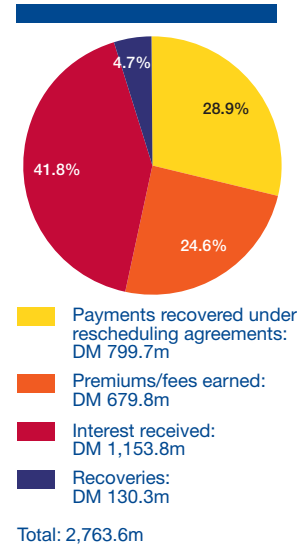
The **premiums and fees** received during the first half-year, DM 679.8m, marked an increase of 48.6 % year-on-year over 2000. This is largely due to the effect of monies received in respect of cover for major transactions granted and invoiced at the end of 2000.

**Recoveries** from already indemnified claims, amounting to DM 130.3m, went up by 34.2 % compared with the same period in the previous year. **Capital repay-**

**ment under rescheduling agreements** rose by 143.3 % to DM 799.7m. Nigeria accounts for the lion's share here, DM 466m, followed by Brazil and Argentina.

**Interest received** – almost entirely under rescheduling agreements – which is, however, not included in the result of the export guarantee scheme, went up by 163.1 % to DM 1,153.8m. The highest amount here, DM 697.1m, came from Russia, with Brazil and Poland next.

REVENUES AT 30.06.2001



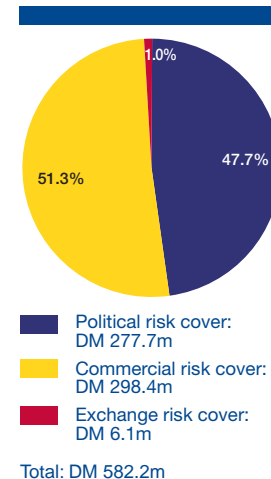
## EXPENSES

Payments for **political claims** including **reschedulings** declined compared with the same period in the preceding year by 51.2 % to DM 277.7m, mostly due to the decrease in claims for old Soviet debt. Claims payments predominantly related to the Ukraine, with DM 129.8m, while the next highest sums were paid out for the former Soviet Union (DM 84.2m), Cameroon (DM 22.2m) and Pakistan (DM 20.7m).

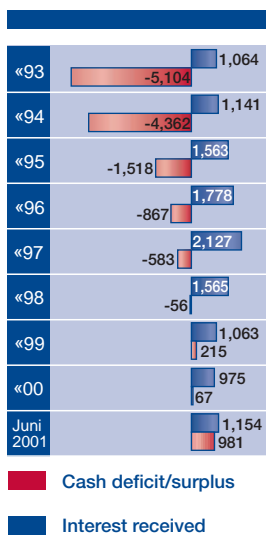
Payments for **commercial claims** were slightly down. Year-on-year they fell by 3.3 % to DM 298.4m. Claims in respect of buyers in Thailand, Korea and Russia as well as other Asian countries accounted for the majority of this.

Payments under **exchange rate claims** more than halved to DM 6.1m as a consequence of the minimal amount of cover remaining and of the continuing strength of the US dollar.

EXPENSES AT 30.06.2001



FINANCIAL RESULT AT  
30.06.2001 IN DM MILLIONS



## FINANCIAL RESULT

As a result of the positive effects detailed above, the first half of 2001 ended, viewed simply in terms of the arithmetic, with a positive balance amounting to DM 980.6m. After all the factors influencing revenues and expenses have been considered, a positive financial result in the amount of the profit for the first half-year is expected for the full business year 2001.

The **interest amounts** of DM 1,153.8m received predominantly in respect of rescheduling agreements (2000: DM 438.5m) have been transferred to the Federal budget accounts. For methodical reasons these sums are not included in the result of the scheme, since the refinancing costs also incurred by the Federal Government in respect of claims payments are likewise not included when calculating the result.

Primary responsibility for decisions on the granting of export guarantee cover is

taken by the Federal Ministry of Economics and Technology.

Federal Ministry of Economics and Technology

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The Federal Government has delegated responsibility for the operation of the export guarantee scheme to a consortium comprising **HERMES Kreditversicherungs-AG** in Hamburg, as lead partner, and **PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesell-**

**schaft**, Hamburg. For further details or if you would like advice concerning the options available and the practical operation of the Federal Government export guarantee scheme, please contact HERMES Head Office, your local HERMES regional sales office or visit our website.



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