Rating-Agentur Expert RA GmbH assigned 'AAA' ratings to Germany

Rating-Agentur Expert RA GmbH assigned 'AAA' sovereign government credit rating (SGC) to Germany in national currency (Highest level of creditworthiness of the government) and 'AAA' in foreign currency (Highest level of creditworthiness of the government).

Rating-Agentur Expert RA GmbH assigned 'AAA' country credit environment rating (CCE) to Germany in national currency (Highest quality of credit environment of the country) and 'AAA' in foreign currency (Highest quality of credit environment of the country).

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Low short-term debt load at 6,3% of GDP and 14,2% of budget revenues in 2015;
- Germany is economically competitive, advanced and diversified with a GDP per capita of USD 47 th in 2015. The country scored 5,5 out of 5,7 in the 2015 competitiveness index from the World Economic Forum and ranked 15th out of 180 countries in the Doing Business ranking published by the World Bank;
- Yield on the 10Y government bond is currently at 0,1% down from 1% back in May 2015 reflecting the investors' confidence in the country in spite of economic concerns in the EU region;
- The country showed twin surpluses in 2015. While trade balance was 8,2% of GDP in 2015, fiscal balance/GDP ratio doubled to a surplus of 0,6% from 2014 to 2015;
- In line with its peers, Germany managed to constantly reduce its unemployment rate through the past six years from 7% in 2010 to 4,5% in 2015;
- As a result of the ECB's expansive monetary policy, the inflation rate rebounded in 2015 up to 0,3% from 0,17% in 2014. However, it could resume its downward trend if world energy prices continue to fall;
- Sound stance of the German banking sector in 2015 with private credit/GDP ratio at 149%, NPL ratio equal to 1,8% and positive but meager profitability due to low interest rate environment;
- Highly developed national stock market (Deutsche Börse) with 595 listed companies and market capitalization/GDP ratio around 50% in 2015. Additionally, the merger between Deutsche Börse and LSE is expected to introduce positive synergies.

Restricting factors:

- Gross government debt load remains manageable and below its peers[1] at 71,2% of GDP and 159,5% of budget revenues in 2015;
- Aging population and low birth rates result in a flat population trend. This represents a long-term financing risk for the pension and healthcare systems. However, technological advance and migration could partly mitigate the risks.

Negative factors:

- Significant decline of banks' assets/GDP through the past six years from 321% in 2010 to 253% in 2015;
- Average capital adequacy ratio of banks remained low at 5,8% in 2015, despite increasing steadily over the last six years;

[1] Peers include Japan, USA, and Austria.

- Foreign exchange reserves were as low as 7,9% of gross government debt in 2015.

Support factors:

- Germany is a key member of the European Union (Strong support-factor);
- The country has an extremely strong financial system which affects other countries (Strong support-factor);
- The country has a strong, stable and important reserve currency (Euro) (Weak support-factor).

ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

Restricting factors:

- Interventions of the government in financial markets are negligible.

Positive factors:

- Real interest rates have remained low with little volatility over the past six years;
- Strong protection of investors as evidenced by the ranking of Doing Business (position 49 out of 180 countries in 2015).

SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- A significant and prolonged deterioration in the fiscal position or public finances leading to material increase of the gross government debt as well as short-term obligations;
- Intensification of the Eurozone debt crisis requiring German financial aid to support the currency union.

"The ratings of Germany are underpinned by the sound macroeconomic and fiscal positions of the country. Germany's recent economic upturn driven by EUR depreciation and lower energy prices support our rating assessment. This demonstrates resilience of the German economy to the slowdown in China and geopolitical tensions in Europe.

The government's fiscal policy drove positive and sustained improvements of the budget balance in recent years. Germany enjoys unfettered access to global financial markets with highly favorable conditions. Its government debt ratios have significantly improved over the past few years. Germany's favorable credit climate environment allows the private sector to have low and stable real interest rates despite high private sector debt." – Clarified Gustavo Angel, Expert of Rating-Agentur Expert RA GmbH.

Responsible expert: Gustavo Angel, Expert of Rating-Agentur Expert RA GmbH

Reviewer: Hector Alvarez, Expert of Rating-Agentur Expert RA GmbH

Research report on Germany is available at:

http://raexpert.eu/reports/Research_report_Germany_15.04.2016.pdf

Next scheduled rating publication: 23 September 2016. The full sovereign rating calendar can be found at http://raexpert.eu/sovereign.php#conf-tab-5.

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INTERNATIONAL GROUP OF RATING AGENCIES

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Minute's summary

The rating committee for Germany was held on 13 April 2016. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning Sovereign Government Credit Ratings and Country Credit Environment Ratings. Short Public Version (from April 2015) can be found under the following link: http://raexpert.eu/files/methodology/Methodology-Short-Sovereign.pdf. Descriptions and definitions of all rating categories can be found under the following link: http://raexpert.eu/sovereign.php under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: International Monetary Fund, World Bank, World Federation of Exchanges, World Economic Forum, Doing Business, United Nations, German Bundesbank, European Central Bank, Ministry of Finance of Germany, Deutsche Börse.

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Despite similar methodologies, credit ratings of Germany from RAEX (Moscow) (both SGC and CCE) may be different from those assigned by Rating-Agentur Expert RA GmbH due to:

- Possible differences in expert assessments of individual factors;
- Some differences in methodologies (methodologies are similar but not identical);
- Differences in the date/period of assessment for individual factors.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process**.**

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports.

This Report represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.