Rating-Agentur Expert RA GmbH confirmed at 'AAA' the ratings of Germany

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

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

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Short-term debt remained low during 1Q 2016 at 7% of GDP and 16% of budget revenues despite having increased by 12% in absolute terms, from EUR 191 bn in 3Q 2015;
- In line with its peers, 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 around zero, down from 0,1% back in May 2015 reflecting the investors' scramble to safe assets in response to concerns regarding 'Brexit' and the EU economy. The yield has been declining since June 2015 and we expect this trend to persist given the high demand for German bonds;
- In contrast to its peers, Germany showed twin surpluses in 2015. While the current account balance stood at 8,5% of GDP in 2015, fiscal balance to GDP ratio doubled to a surplus of 0,6% from 2014 to 2015. Even though we expect a strong result in the current account at around 8,2% of GDP in 2016, the fiscal balance is likely to become negative driven by lower tax revenues and higher social and pension expenses;
- In line with its peers, Germany managed to constantly reduce its unemployment rate through the past six years from 7% in 2010 to 4,6% in 2015. In addition, the introduction of a statutory minimum wage in January 2015 has not had a material impact on the aggregate employment trend so far;
- As a result of the ECB's asset purchase programme, the inflation rate rebounded in 2015 up to 0,3% from almost zero in 2014. However, it could resume its downward trend if world energy prices fall further;
- The German banking sector remains strong and resilient with assets and private credit at 253% and 142% of GDP respectively. Non-performing loans at 3,2% of total loans remain low and well below the EU average. However, low interest rates, high operating costs, and regulatory changes are long-term risks for the sector's profitability;
- Highly developed national stock market (Deutsche Börse) with 555 listed companies and market capitalization to GDP ratio at 52% in 2015. The merger between Deutsche Börse and the London Stock Exchange (LSE) is expected to introduce positive synergies for both stock markets. However, the recent decision of Britain to consider a withdrawal from the European Union could potentially harm such developments.

Restricting factors:

- Gross government debt remains manageable and below its peers[1] at 71% of GDP and

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

159% of budget revenues in 2015. German debt metrics have declined steadily since 2010 driven by the country's solid economic performance and positive fiscal balance. We expect gross government debt to continue its downward trend during 4Q 2016; the IMF forecasts it around 68% of GDP and 154% of budget revenues by the end of 2016;

- Aging population and low birth rates result in a flat population trend. This represents a long-term risk for the budget as well as financing risk for the pension and healthcare systems. However, technological advance and migration could partly mitigate these risks.

Negative factors:

- Banks' assets to GDP ratio declined significantly during the past six years from 321% in 2010 to 253% in 2015. However, this trend slightly reverted during 1H 2016, as Banks' assets increased by 3% in absolute terms up to EUR 7 920 bn driven by higher credit growth (especially in the mortgage segment);
- Average banks' capital to assets ratio remains low at 5,9% in 2015 despite increasing by 1,6 p.p. since 2010;
- Foreign exchange reserves at USD 186,3 bn in July 2016 covered only one month of imports and were as low as 7,8% of gross government debt.

Support factors:

- Germany participates and 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 and/or refugee crisis requiring unexpected financial aid from the German government.

"The Agency is confirming the ratings of Germany at 'AAA' based on the country's strong economic position and ability to show persistent twin surpluses despite external shocks, as well as the high resilience of the banking sector to internal and regional risks.

Government debt metrics are manageable with a downward trend and the fiscal balance remains low but positive. Germany's fiscal balance has been consolidating over the past years. However, aging population and low birth rates introduce risks to the fiscal performance of the country.

In our view, the setback that the ruling party had in recent local and state elections combined with UK-EU discussions over 'Brexit' could reshape some of the current policies regarding migration and taxation and encourage a policy shift after the September 2016 Federal elections." – Clarified Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH.

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

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

Research report on Germany is available at:

http://raexpert.eu/reports/Research_report_Germany_23.09.2016.pdf

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RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	**Foreign currency**	**National currency**	**Foreign currency**
15.04.2016	First assignment of both types of ratings for the country	AAA	AAA	AAA	AAA

Minute's summary

The rating committee for Germany was held on 20 September 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.

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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.

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