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:

- Low levels of short-term debt (considering LT debt due less than one year) at 15% of GDP and 32,6% of budget revenues as of 1Q 2017;
- Germany is still one of the most competitive, advanced and diversified economies in the world with a real GDP per capita in PPP terms of USD 48,2 th in 2016. In 2016, the country scored 5,6 out of 5,7 in the competitiveness index from the World Economic Forum and ranked 17th out of 180 countries in the Doing Business ranking published by the World Bank;
- Inflation has remained stable throughout 2017 and it posted a figure of 1,8% in August 2017 as a result of solid outcome in the services sector;
- The yield on the 10Y government bond remains substantially low at 0,4% as of September 2017 showing the investors' perception of the economy as low risk;
- In 2016, Germany recorded twin surpluses for three years in a row. While the fiscal balance reached 0,8% of GDP, the current account stood at 7,9% of GDP. However, we expect the current account balance to shrink in 2017 as a result of the EUR appreciation reported during 1H 2017;
- Germany's unemployment rate followed a downward trend along 2017, declining from 4% in January to 3,6% in July. This was the result of stronger internal demand which was supported by a higher and sustained inflation rate;
- The banking sector remains solid and resilient with assets and private credit at 252% and 134% of GDP respectively. Non-performing loans at around 2,5% of total loans increased slightly from a year before but remained low and below the EU average in 2016. However, persistent 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 more than 500 listed companies and a market capitalization to GDP ratio of around 50% in 2016.

Restricting factors:

- Gross government debt remained acceptable and below its peers[1] by end-2016 at around 68% of GDP and 150% of budget revenues. A solid economic performance and continued fiscal surpluses have caused debt metrics to steadily decline since 2010. Going forward, we anticipate these figures to continue their downward trend as a result of encouraging growth perspectives and the large fiscal space;

[1] Peers include Japan, UK and USA.

- Aging population and low birth rates in Germany remain a long-term concern for the budget as well as the pension and healthcare systems. However, technological advances combined with a long-term migration policy could partly mitigate these risks.

Negative factors:

- The banks' assets to GDP ratio steadily declined during the past six years from 310% in 2011 to 251% in 2016. This was mainly driven by a slight decline in loans to other banks in the Eurozone, combined with a constant increase in GDP;
- Average banks' capital to assets ratio remained low at 6% in 2016 despite increasing by 1,6 p.p. since 2011 and standing below that of its major peers in 2016;
- FX reserves at USD 171 bn in August 2017 covered only 1,5 months of imports and were as low as 7,7% of gross government debt. However, the fact that the EUR is a reserve currency mitigates this risk.

Support factors:

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

ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

Restricting factors:

- Interventions of the government in financial markets remain negligible.

Positive factors:

- Despite the hike of the inflation rate in 2016, real interest rates have remained stable with little volatility over the past six years;
- Strong protection of investors as evidenced by the ranking of Doing Business (position 53rd out of 180 countries in 2016). However, this metric deteriorated slightly from a year before (49th out of 180).

SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- An unexpected and prolonged deterioration of public finances leading to material increase of the gross government debt as well as short-term obligations.

"The ratings of Germany at 'AAA' remain underpinned by encouraging economic conditions, persistent twin surpluses, resilience to external shocks and a strong stance of the banking system.

Government debt load remained in a downward path during 2016, reaching EUR 2,1 tn by the end of the year. This, combined with an increase in GDP and budget revenues, drove a decline in debt metrics for the fourth year in a row.

Twin surpluses remain supported by the country's strong external position and the government's successful efforts towards fiscal consolidation on the back of its reduced need for financing.

Even though political risks dissipated following the strong support of Merkel as the next German Chancellor, it is still unclear how the new Bundestag structure will impact the re-shaping of current laws and regulations." – 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 Associate of Rating-Agentur Expert RA GmbH

Research report on Germany is available at:

http://raexpert.eu/reports/Research_report_Germany_15.09.2017.pdf

Next scheduled rating publication: TBD in December 2017.

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RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	**Foreign currency**	**National currency**	**Foreign currency**
17.03.2017	Scheduled revision of both types of ratings	AAA	AAA	AAA	AAA
23.09.2016	Scheduled revision of both types of ratings	AAA	AAA	AAA	AAA
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 13 September 2017. 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 2017) can be found under the following link: http://raexpert.eu/files/methodology/Methodology_Short_Sovereign_v2.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, Destatis.

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.

Regulatory use

Only SGC ratings can be used for regulatory purposes according to the ESMA definition. CCE ratings are not considered as credit ratings within the framework of Regulation (EC) No 1060/2009.

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.

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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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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.