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 amount of short-term debt at 6,7% of GDP and 14,9% of budget revenues as of 3Q 2016. Additionally, short-term debt accounted for 9,7% of gross government debt in that period;
- In line with its peers[1], Germany remains economically competitive, advanced and diversified with an estimated real GDP per capita in PPP terms of USD 48,2 th in 2016. In the same year, 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;
- Fueled by higher energy and food prices, the inflation rate rebounded during 2H 2016 up to 1,9% by January 2017. However, it could resume its downward trend if world energy prices return to a declining path;
- The yield on the 10Y government bond was one of the lowest worldwide at around 0,3% in March 2017. However, driven by higher inflation expectations, this metric rebounded during 2H 2016;
- In 2016, Germany recorded twin surpluses for the third year in a row. While the fiscal balance reached 0,8% of GDP, the current account stood at 8,5% of GDP. In contrast, the country's peers reported fiscal deficits in 2016;
- Germany's unemployment rate hit a historical record in 2016 at 3,5%, down from 4,6% a year before. However, this could be showing a short-term effect of the record increase in inflation observed in 2016 as suggested by the Philips curve effect;
- The German banking sector remains strong and resilient with assets and private credit at 252% and 139% of GDP respectively. Non-performing loans at around 3% of total loans increased from a year before but remained low and below the EU average in 2Q 2016. 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.

Restricting factors:

- Gross government debt was still manageable and below its peersas of 3Q 2016 at around 69% of GDP and 154% of budget revenues. German debt metrics have declined steadily since 2010 driven by the country's solid economic performance and positive fiscal balance.

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

We expect gross government debt to continue its downward trend during 2017 driven by encouraging growth perspectives and the wide fiscal space;

- Despite the one time increase in population fueled by the influx of refugees and asylum seekers in 2015, ageing population as a result of low birth rates translates into a flat population trend. This still represents a long-term risk for the budget as well as financing risk for the pension and healthcare systems. However, technological advance, combined with a long-term migration policy could partly mitigate these risks.

Negative factors:

- Banks' assets to GDP ratio steadily declined during the past six years from 310% in 2011 to 249% in 2016. This was mainly driven by a slight decline in loans to other banks in the Euro Area, combined with a constant increase of GDP;
- Average banks' capital to assets ratio remained low at 5,9% in 2015 despite increasing by 1,5 p.p. since 2011. Furthermore, Germany's metric stood below that of its major European peers in 2015;
- FX reserves at USD 175 bn in December 2016 covered only one month of imports and were as low as 7,8% 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 (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 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:

- 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.

"We are 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 remain trending downward and the fiscal balance is still positive but narrow and has been consolidating over the past years. However, aging population and low birth rates introduce risks to the fiscal performance of the country.

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 2017 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 Associate of Rating-Agentur Expert RA GmbH

Research report on Germany is available at:

http://raexpert.eu/reports/Research_report_Germany_17.03.2017.pdf

Next scheduled rating publication: 15 September 2017. The full sovereign rating calendar can be found at http://raexpert.eu/sovereign/#conf-tab-5

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RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
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 14 March 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 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, 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.

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.

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.