Rating-Agentur Expert RA confirmed at 'AAA' the ratings of the United States of America. The rating outlook is stable. The rating was withdrawn.

Rating-Agentur Expert RA confirmed the sovereign government credit rating (SGC) of United States of America 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. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- The U.S. remains the largest world economy with a highly diversified structure, elevated technological development and favorable geographical and geopolitical stance. Moreover, the U.S. economy shows one of the highest real GDP growth rates as compared to most of large developed countries[1]. The country occupied №1 position in the 2018 Global Competitiveness Index 4.0 from the World Economic Forum and ranked 8th out of 190 countries in the Doing Business 2019 report published by the World Bank;
- The U.S. remains one of the world's wealthiest countries with a GDP per capita of USD 62 600 in PPP terms in 2018 and a Human development index of 0,92 in 2017;
- Despite market capitalization of listed companies having dropped by end-2018 (by 6,3% for NYSE and by 2,8% for Nasdaq as compared to December 2017), the U.S. still has the most developed and liquid stock market in the world, with market capitalization of listed companies around 150% of GDP by end 2018;
- As the result of the fiscal stimulus implemented by the government (such as tax cuts and the Jobs Act), the real GDP continued to grow at high pace of 2,9% in 2018, which is higher than most advanced economies. However, we keep our expectations of long-term growth close to 2% taking into account aging population and limited effects from fiscal stimulus;
- The level of unemployment reached 3,9% in 2018, which is even lower than pre-crisis metric of 4,6% in 2007, showing the positive effects from the current government policy. However, we still expect the unemployment rate to stabilize around 3,6% in the long-term perspective;
- Despite short-term debt having increased substantially over the last years, it remains at bearable levels according to our internal benchmarks at 12% of GDP and 38% of budget revenues in 2018;
- As the result of fiscal reforms, pressure on higher wages due to extremely low levels of unemployment and higher hydrocarbon prices, the inflation rate decreased from 2,17% in 2017 to 1,97% in 2018.

Restricting factors:

- The leverage of the U.S. economy remains high with the volume of domestic credit to GDP at more than 240% in 2018; however, these risks remain mitigated by strong banking industry performance over the last years;
- The federal budget deficit widened to USD 779 bn or 3,8% of GDP in the 2018 fiscal year

[1] The following countries and unions were compared: Australia, Canada, Germany, France, UK and EU.

(FY)[2] as compared to 3,4% in the 2017FY, driven in large part by a sharp decline in corporate tax revenues and rising interest burden. This dynamic, as well as IMF and WB estimates, shows a 4,3% deficit in 2018 calendar year, which is the largest deficit since 2012. Based on the fiscal plans and 2019 dynamic we can expect further widening of fiscal deficit by end of year;

- FDI inflows are estimated to drop from 1,42% of GDP in 2017 to 1,23% in 2018 according to the National Bureau of Economic Analysis, mostly caused by a drop in the FDI balance with Canada as well as Asia-Pacific countries, especially Japan.

Negative factors:

- Taking into account the new issuance of debt from 2018, gross government debt is expected to have increased by 4,7% to USD 21,6 tn and to remain high at around 106% of GDP and 343% of budget revenues in 2018 calendar year;
- Preliminary data for 2018 shows a substantial increase of goods and services foreign trade deficit, which is expected to have reached USD 622,1 bn (3% of GDP), the largest deficit since 2008, caused by strong domestic demand for imports as well as a strong USD and retaliatory tariffs weighing on exports. Taking into account higher internal demand we expect the trade deficit to increase further by end-2019;
- The current stance of fiscal and debt coherence between executive and legislative authorities remains weak and creates a significant risk of materialization of a second federal government shutdown in October 2019. Despite the fact that we expect the debt limit to be raised before the end of the 2019FY, the uncertainty about government fiscal policy is set to increase by the end of the 2019 calendar year, taking into account upcoming presidential elections in November 2020.

Support factors:

- The U.S. has a strong financial system which affects other countries and the U.S. Treasury bonds serve as international benchmark for fixed income securities (very strong support factor);
- The country has a very strong and important global reserve currency: USD (moderately strong support factor);
- Participation in strong trade and political unions (USMCA, OECD, etc.) (moderately strong support factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- Further increase of the fiscal deficit as a result of lower than expected fiscal revenues and higher expenses as well as substantial increase of government debt levels;
- Renegotiation or withdrawal from key trade agreements, which could lead to a reduction of the U.S. volume of trade and increase of domestic prices;
- Significant and continued deterioration of global investors' trust in the U.S. financial sector due to low predictability of the government's policy; as well as gradual erosion of USD role in the world trade and its exceptional role as a global reserve currency;
- Further decline of net FDI, which would reduce overall investments.

"Our confirmation of the United States' credit ratings in both national and foreign currency with a stable outlook is based on the country's exceptionally strong macroeconomic profile as well as the unique roles of USD and U.S. financial system, which offset increasing fiscal and debt risks.

[2] The fiscal year refers to the U.S. federal treasury budget panning and performance period started in 1 October and ending 30 September the following year.

The economy keeps benefiting from the current fiscal policy, showing a stronger real GDP growth than most peers. However, as a result of this policy, the U.S. fiscal position continued to worsen, as shown by rising debt and wide deficit levels. In addition, uncertainty regarding the debt and fiscal policy is a strong negative factor for the country's credit rating.

The economy's leverage remains high; however, this risk is mitigated by solid banking system metrics, as well as highly developed and liquid stock and bond markets. Moreover, the inflation level declined in 2018, while the monetary policy became more cautious, it still shows high effectiveness and independence, supporting the rating." – Clarified Vladimir Gorchakov, Associate Director of Rating-Agentur Expert RA GmbH.

Research report on USA is available at:

https://raexpert.eu/reports/Research_report_USA_03.05.2019.pdf

Next scheduled rating publication: The rating was withdrawn. The full sovereign rating calendar can be found at Sovereign Rating Calendar 2019

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
09.11.2018	Scheduled revision of both types of ratings for the country	AAA	AAA	Stable	Stable
11.05.2018	Scheduled revision of both types of ratings for the country	AAA	AAA	NA	NA
17.11.2017	Scheduled revision of both types of ratings for the country	AAA	AAA	NA	NA
19.05.2017	Scheduled revision of both types of ratings for the country	AAA	AAA	NA	NA
25.11.2016	Scheduled revision of both types of ratings for the country	AAA	AAA	NA	NA
03.06.2016	Scheduled revision of both types of ratings for the country	AAA	AAA	NA	NA
11.12.2015	First assignment of both types of ratings for the country	AAA	AAA	NA	NA

Minute's summary

The rating committee for USA was held on 2 May 2019. 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 – Full Public Version (from May 2018). Descriptions and definitions of all rating categories can be found 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.

The definition of default can be found on the Agency's website in the section for Internal policies.

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, U.S. Federal Reserve.

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

SGC ratings can be used for regulatory purposes according to the ESMA definition.

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 press-release and research report.

This press-release 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.