

## Rating-Agentur Expert RA GmbH confirmed 'AAA' ratings of the United States of America

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Rating-Agentur Expert RA GmbH confirmed the sovereign government credit rating (SGC) of the 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.

Rating-Agentur Expert RA GmbH confirmed the country credit environment rating (CCE) of the United States of America 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:

- Highly diversified, technologically advanced and dynamic national economy combined with a favorable geographical and geopolitical stance. The country scored 5,6 out of 5,8 in the 2015 competitiveness index from the World Economic Forum and ranked 7<sup>th</sup> out of 180 countries in the Doing Business ranking published by the World Bank;
- The USA is one of the world's wealthiest countries with a GDP per capita of USD 55 810 in 2015. The country markedly stands out among large advanced countries;
- Strongly developed and liquid stock market as shown by the market capitalization of listed companies at 140% of GDP in 2015. Additionally, there are 5471 listed companies and 10115 listed bonds nation-wide. However, the market capitalization figure might be an indication of a stock-market overheating fueled by a prolonged period of expansionary monetary policy;
- Real GDP grew steadily since 2010 at an average rate of 2%. We expect this trend to remain in place in the next years;
- Fiscal deficit was manageable at 3,7% of GDP in 2015 and narrowed by 7,2p.p. between 2010-15;
- Unemployment rate steadily declined over the last six years to 5,3% in 2015 from 9,6% in 2010 (the highest recorded after the 2008 financial crisis);
- Moderate level of short-term debt at 8,8% of GDP and 27,4% of budget revenues in 4Q 2015;
- Inflation rate remains low and has steadily declined from 3,1% in 2011 to 0,8% in 2015. Driven by potentially higher GDP growth rates and rising interest rates, the Agency expects the inflation rate to end 2016 with a similar figure as in 2015 and to resume a positive trend in the long run;
- High volume of national savings at 18,7% of GDP in 2015, which shows the investment potential in the country. Additionally, this indicator has increased steadily over the past six years.

#### Restricting factors:

- Highly leveraged private sector, as indicated by the volume of private credit/GDP which stood at 248% in 2015 and increased by 21p.p. during 2010-15.

#### Negative factors:

- High but stable government debt load at 105,8% of GDP and 331,3% of budget revenues by end-2015. We expect this trend to persist in the short and mid run. However, the long-run trend will ultimately depend on the 2016 presidential elections results;
- Persistent politicking between the legislative and executive branches of the government on fiscal policies and debt ceilings that sometimes increases the possibility of a technical debt default.

#### Support factors:

- The US has a strong financial system which affects other countries and the US Treasury bonds serve as international benchmark fixed income securities (Exceptionally strong support factor);
- The country has a very strong and important global reserve currency; USD (Moderate support factor);
- Participation in strong trade and political unions (NAFTA, OECD) (Moderate support factor).

#### ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

##### Negative factors:

- Significant level of private sector debt/GDP (255% in 2015).

##### Positive factors:

- High quality and large variety of instruments on the financial market;
- High quality of investor's protection - the US occupied the 35<sup>th</sup> place out of 180 countries in the ranking of protecting investors from Doing Business in 2015;
- Real interest rates remain low at 2,5% in 2015, but have increased steadily in the wake of the declining inflation. However, the Agency expects the real interest rates to resume a downward trend in the long term as a result of higher inflation;
- Stock exchange Index (S&P 500) has significantly increased over the last six years. However, this might indicate an overheating equity market fueled by expansionary monetary policy.

#### SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- Increase of the fiscal deficit to figures observed prior to 2010 as a result of lower than expected fiscal revenues or unexpected contingent expenses.

"The ratings of the USA were confirmed at 'AAA' level reflecting the country's advanced and diversified economy, as well as the global reserve status of the USD and the international importance of the US financial markets. Macroeconomic fundamentals remain favorable for the country and we expect this trend to remain in the mid and long run.

The high and increasing loads of government and private debt present one of the major risks for the United States. Fiscal deficit narrowed in 2015 and we expect it to keep improving in the short term. However, risks can arise from newly elected administration policies, such as medical care and defense.

The US financial markets keep showing a strong position despite banks' meager profitability. Full normalization of the monetary policy is still overdue, but a hike in the interest rates is likely to

materialize in the mid-run. This will ultimately improve banks' profits." - Clarified Gustavo Angel, Expert of Rating-Agentur Expert RA GmbH.

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

Reviewer: Vladimir Gorchakov, Lead Expert of Rating-Agentur Expert RA GmbH

Research report on the USA is available at:

[http://raexpert.eu/reports/Research\\_report\\_USA\\_03.06.2016.pdf](http://raexpert.eu/reports/Research_report_USA_03.06.2016.pdf)

Next scheduled rating publication: 25 November 2016. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign.php#conf-tab-5>.

For further information contact:

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
11.12.2015	First assignment of both types of ratings for the country	AAA	AAA	AAA	AAA

## Minute's summary

The rating committee for the United States of America was held on 3 June 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, US Federal Reserve.

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## 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 the United States of America 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.