9 November 2018

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

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:

- Highly diversified, technologically advanced and dynamic national economy combined with a favorable geographical and geopolitical stance. The country scored 5,85 out of 5,86 in the 2017-2018 competitiveness index from the World Economic Forum and ranked 6th out of 190 countries in the Doing Business 2018 report published by the World Bank;
- The U.S. is one of the world's wealthiest and most developed countries with a GDP per capita of USD 59 800 in PPP terms in 2017 and a Human development index of 0,92 in 2018;
- Highly developed and liquid stock market as evidenced by the market capitalization of listed companies at 165,7% of GDP by end-2017;
- Real GDP continued to pick up and it grew by 2,3% in 2017. We anticipate the economy to continue in an uptick in 2018 and to grow at a rate of about 3% resulting from the proactive fiscal reforms implemented by the government which have caused solid consumer and public spending;
- The unemployment rate continues to decline and stood at 3,7% as of October 2018. Going forward, we expect the unemployment rate to reduce the pace of its decline and to stabilize at around 3,6% following the move of the national output gap from negative to positive ground;
- Short-term debt metrics remain bearable. Despite having increased slightly in 2017 to 10,3% of GDP and 33,4% of budget revenues, the metric has remained fairly constant in 2018;
- The inflation rate slowed down slightly in September 2018 posting a reading of 2,3% y-o-y as compared to 2,9% in July 2018. Going forward, we expect inflation rates to continue to slightly increase as a result of the effects of the fiscal reforms, pressure on higher wages due to extremely low levels of unemployment and higher hydrocarbon prices.

Restricting factors:

- The leverage of the U.S. economy remains substantial as indicated by the volume of private credit to GDP which we expect to have reached around 243% in 2017 and to continue in a slight upward trend in 2018;
- The U.S. fiscal deficit decreased by 0,1p.p. to 3,8% of GDP in 2017. However, based on the preliminary data for 2018 as well as IMF's and World Bank's estimates, we expect fiscal deficit to exceed 4,5% of GDP by end of year as a result of the administration's lose fiscal policy;

- FDI inflows dropped sharply to 1,8% of GDP in 2017 as compared to 2,7% a year before. This is the strongest decline of the metric since 2009, when it went down by 1,2p.p. as a result of the global financial crisis.

Negative factors:

- Government debt load hiked by 2,6% to USD 20,5 tn and remained high at 105,2% of GDP and 340% of budget revenues as of end-2017. We expect the gross government debt to increase by around 6,2% to USD 21,7 tn in 2018 and stand at 106% of GDP and 341% of budget revenues;
- After posting a reading of around 2,8% of GDP in 2017, we expect the trade deficit to widen slightly further in 2018. On the one hand, the United States-Mexico-Canada Agreement (USMCA) has alleviated some uncertainty regarding the economic impact of a no-deal. On the other hand, the trade spat with China could have mixed material effects on the country's trade balance;
- The issue of the persistent politicking between the legislative and executive branches of the government on fiscal policies and debt ceilings just became even more substantial as the democrats will have the majority in the House of Representative after the 6 November 2018 election results.

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 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 or higher expenses. The cut in the corporate tax rate combined with higher interest payments following the hike in the Fed Funds rate could lead to higher deficit figures in the long run;
- 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;
- 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 reflects the country's sound macroeconomic position as well as its resilience to external and domestic shocks. Gross government debt continued to grow along 2018 as a result of the government's lose fiscal policy and the suspension of the debt limit until March 2019. We expect debt metrics to increase and fiscal deficit to widen by the end of 2018; however, the results of the November 2018 House of Representative elections could make it difficult for the government to follow through with the planned agenda in respect to fiscal policy.

Based on higher inflation expectations and stable economic growth, we anticipate monetary policy normalization to continue in 2019. Therefore, we expect several interest rate hikes within the next 12 months. Inflows of foreign direct investments (FDI) recorded its largest drop since the 2008 financial crisis, showing a slowdown of investments in the country, while trade deficit is expected to widen slightly in 2018. On the one hand, the United States-Mexico-Canada Agreement (USMCA) has alleviated some uncertainty regarding the economic impact of a no-deal between these countries. On the other hand, the trade spat with China could have mixed material effects on the country's trade balance." – Clarified Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA GmbH

Responsible expert: Vladimir Gorchakov, Rating Associate of Rating-Agentur Expert RA

Reviewer: Hector Alvarez, Rating Associate of Rating-Agentur Expert RA

Research report on USA is available at:

https://raexpert.eu/reports/Research_report_USA_09.11.2018.pdf

Next scheduled rating publication: TBD in December 2018.

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
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 8 November 2018. 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) can be found under the following link: https://raexpert.eu/files/methodology/Methodology_Full_Sovereign_V3.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, 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.

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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.