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Main Economic Indicators of Germany

Macro indicators	2012	2013	2014
Gross gov. debt, bill EUR	2185	2171	2176
Nominal GDP, bill EUR	2755	2821	2916
Real GDP growth, %	0,6	0,4	1,6
Gross gov. debt/GDP,%	79,3	77,0	74,6
Deficit (surplus)/GDP,%	0,1	0,1	0,3
Inflation rate,%	2,1	1,2	0,2
Curr. Account balance/GDP,%	5,8	5,8	6,5

Development indicators	2014
Inequality adj. HDI	0,85
GDP per capita (USD'000)	46,2

Default indicator	As of 28.10.2015
5-Year CDS spread (%)	0,14
10Y Gov Bond Yield, %	0,44

Sources: RAEX (Europe) calculations based on data from IMF, Deutsche Bank

Summary

Germany has a highly competitive, advanced and diversified economy. It has demonstrated high resilience to withstand significant economic and financial shocks. The country enjoys twin surpluses in the current account and the fiscal balances. The latter is evidence of prudent government policies that lead to strong public finances. Government debt metrics remain sound thanks to record-low interest rates and fiscal surplus.

Stable economic growth over the last years resulted in low unemployment and potential labor shortages exacerbated by aging population. However, rapid increase in immigration since 2014 should prevent potential labor deficits.

The European Central Bank's (ECB) expansionary policy has had a positive effect on Germany by boosting its exports thanks to weakening Euro. However, prolonged periods of low interest rates brought down profitability of German banks and may lead to stock and property market bubbles.

Slowdown in major emerging markets and geopolitical tensions in Eastern Europe have not negatively affected the German economy, although slowdown in China might harm German exports in the longer run.

Twin fiscal and current account surpluses. In 2014 Germany had positive fiscal balance for all levels of government for the first time since reunification. This was the result of stable growth of the economy leading to strong tax revenue and low unemployment that reduced social costs as well as declining interest payments on government debt. The fiscal policy may become more expansionary to finance infrastructure and the record number of refugees, but the balance will remain positive.

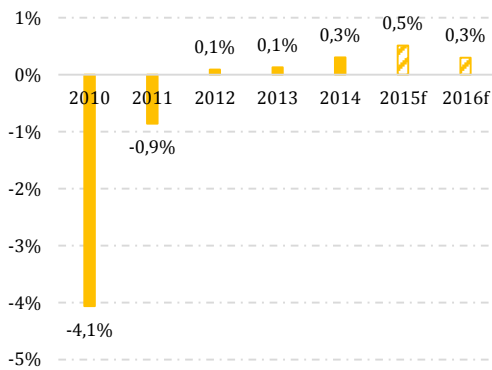
Additionally, Germany enjoyed strong external position with current account surplus at 7,4% of GDP in 2014. IMF expects further strengthening of the surplus to about 8% of GDP in 2015 and 2016 driven by stronger EU and US demand for German products.

Sound debt position. Budget surplus since 2012 (see graph 1) allowed the government to reduce reliance on debt issuance and led to steady decline of government debt over the past years. Government debt decreased to 75% of GDP and 167% of budget revenues in 2014 (2010: 81% and 187% respectively). The Agency expects this positive trend to

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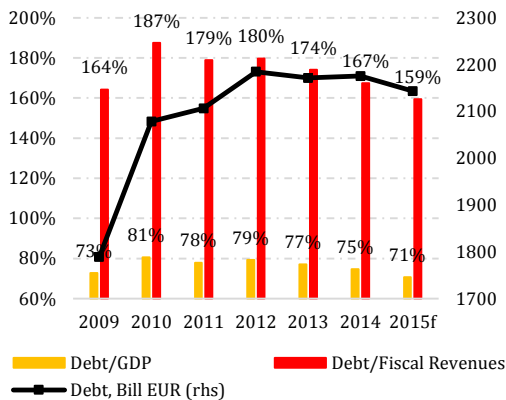
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Graph 1: Fiscal balance/GDP



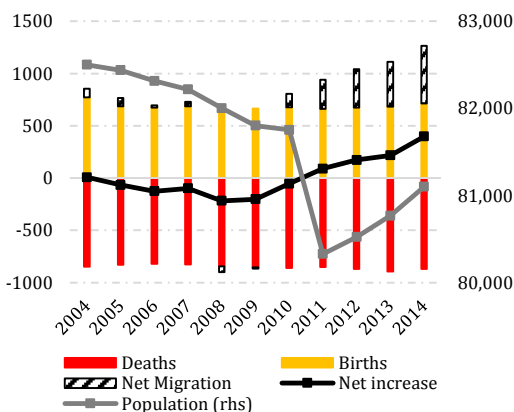
Source: RAEX (Europe) calculations based on data from IMF

Graph 2: Trend of debt indicators



Source: RAEX (Europe) calculations based on data from IMF

Graph 3: Drivers of population dynamics (000's)



Source: RAEX (Europe) calculations based on data from DESTATIS

continue in the mid-term further strengthening Germany's net creditor position (see graph 2).

Germany demonstrates strong resilience. Economic slowdown in key emerging countries, Russian-Ukrainian crisis and resumption of the Greek sovereign debt crisis have had limited impact on the German economy. The GDP grew 1,6% in 2014, above the Eurozone average of 0,9%, while IMF expects the economy to expand by 1,5% and 1,6% in 2015 and 2016 respectively. The country has benefited from lower energy prices, weaker Euro that stimulates exports, as well as robust private consumption boosted by growth in real wages¹ since 2014.

Population trends could rebound in the years to come. German population showed a negative trend until 2011, but rebounded since then thanks to a net increase in the number of immigrants (see graph 3). If the immigration trend continues and government initiatives to increase female participation in the labor market succeed, Germany would largely mitigate long-term risks in the pension and health care systems².

ECB policy favorable for German exports. The ECB's policy of stimulating private consumption and business investments through money printing has yet to demonstrate positive results on inflation. However, the side effect has been a weaker Euro that supported German exports, which have a key role in the German economic model at about 40% of the GDP.

The ECB president has hinted that the expansionary monetary policy could continue beyond the initial closing date of September 2016. As a result, the German economy will likely continue to benefit from weak euro and growing internal consumption.

Sound banking sector with downside risks. Main indicators of the German banking sector showed mixed results. Banks' assets were as high as 267% of GDP and distressed loans accounted for only 2,5% of total loans. However, German banks have been struggling to maintain decent profitability figures since the ECB brought the rate on the deposit facility³ down to negative territory in June 2014. Additionally, average capital adequacy ratio remained low at 5,6% by the end of 2014 despite having increased over the past five years (2010: 4,3%). Low capitalization of the banking sector may lead to unexpected rise in contingent liabilities for the government, but Germany has sufficient resilience to withstand potential shocks.

¹ For a more detailed explanation on the recently passed minimum wage law refer to the research report from the 30th of April, 2015 (http://raexpert.eu/reports/Research_report_Germany_30.04.2015.pdf)

² For a more detailed explanation on the impact of current population trends on the pension system refer to the research report from the 30th of April, 2015 (http://raexpert.eu/reports/Research_report_Germany_30.04.2015.pdf)

³ The rate on the deposit facility is the rate which banks may use to settle overnight deposits with the Eurosystem.

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